33.17 A company's telephone bill consists of two elements. One is a quarterly rental charge, payable in advance; the other is a quarterly charge for calls made, payable in arrears. At 1 April 20X9, the previous bill dated 1 March 20X9 had included line rental of $90. Estimated call charges during March 20X9 were $80.

During the following 12 months, bills totalling $2,145 were received on 1 June, 1 September, 1 December 20X9 and 1 March 20Y0, each containing rental of $90 as well as call charges. Estimated call charges for March 20Y0 were $120.

What is the amount to be charged to the statement of profit or loss for the year ended 31 March 20Y0?

- ○ $2,185
- ○ $2,205
- ○ $2,155
- ○ $2,215

(2 marks)

33.18 Which **THREE** of the following sets of items all appear on the same side of the trial balance?

1 Sales, interest received and accruals

2 Receivables, drawings and discount received

3 Non current assets, cost of sales and carriage outwards

4 Capital, trade payables and other operating expenses

5 Sundry expenses, prepayments and purchases

- ○ 1, 4 and 5
- ○ 1, 3 and 5
- ○ 1, 2 and 3
- ○ 3, 4 and 5

(2 marks)

33.19 A sole trader's accounts show an increase in net assets over a year of $173,000. Drawings were $77,000 and capital introduced was $45,000.

What was the net profit for the year?

$ ____________

(2 marks)

33.20 Capital introduced is $50. Profits brought forward at the beginning of the year amount to $100 and liabilities are $70. Assets are $90.

What is the retained profit for the year?

- ○ $130 profit
- ○ $130 loss
- ○ $10 profit
- ○ $10 loss

(2 marks)

(Total = 40 marks)

34 Mixed bank 6 — 43 mins

34.1 If there is a debit balance of $1,250 on X's account in the books of Y, what does this mean?

- ○ X owes $1,250 to Y
- ○ Y owes $1,250 to X
- ○ X has returned goods worth $1,250 to Y
- ○ X is owed $1,250 by Y

(2 marks)

34.2 You are an employee of Exelan Co and have been asked to help prepare the end of year statements for the period ended 30 November 20X9 by agreeing the figure for the total receivables.

The following figures, relating to the financial year, have been obtained from the books of original entry.

	$
Purchases for the year	361,947
Sales	472,185
Returns inwards	41,226
Returns outwards	16,979
Irrecoverable debts written off	4,586
Discounts received	1,864
Cheques paid to suppliers	342,791
Cheques received from customers	429,811
Customer cheques dishonoured	626

You discover that at the close of business on 30 November 20X8 the total of the receivables amounted to $50,241. What is the balance on the receivables ledger control account at 30 November 20X9?

- ○ $47,429
- ○ $56,601
- ○ $46,177
- ○ $71,676

(2 marks)

34.3 Sandilands Co uses a computer package to maintain its accounting records. A printout of its cash book for the month of May 20X3 was extracted on 31 May and is summarised below.

	$		$
Balance b/d	546	Payments	5,966
Receipts	6,293	Balance c/d	873
	6,839		6,839

The company's chief accountant provides you with the following information.

(a) Bank charges of $630 shown on the bank statement have not been entered in the company's cash book.

(b) Three standing orders entered on the bank statement have not been recorded in the company's cash book: a subscription for trade journals of $52, an insurance premium of $360 and a business rates payment of $2,172.

(c) A cheque drawn by Sandilands Co for $693 and presented to the bank on 26 May has been incorrectly entered in the cash book as $936.

After correcting the errors above, what is the revised balance on the cash book?

- ○ $2,098 DEBIT
- ○ $2,584 DEBIT
- ○ $3,868 CREDIT
- ○ $3,382 CREDIT

(2 marks)

34.4 A company purchases a machine for $9,000. The machine is depreciated at 30% per year on the reducing balance basis. A full year's depreciation is charged in the year of purchase, with none in the year of sale. During Year 4, it is sold for $3,000.

What is the profit or loss on disposal?

- ○ $1,000 profit
- ○ $87 loss
- ○ $1,410 profit
- ○ $840 profit

(2 marks)

34.5 Which one of the following does a business aim to ensure by charging depreciation in the financial statements?

- ○ The cost of non-current assets is spread over the accounting periods which benefit from their use.
- ○ There are sufficient funds set aside to replace the assets when necessary.
- ○ Profits are not understated.
- ○ Assets are shown at their realisable value.

(2 marks)

34.6 A business purchased an asset on 1 January 20X1 at a cost of $160,000. The asset had an expected life of eight years and a residual value of $40,000. The straight line method is used to measure depreciation. The financial year ends on 31 December.

At 31 December 20X3, the estimated remaining life of the asset from that date is now expected to be only three more years, but the residual value is unchanged.

What will be the net book value of the asset as at 31 December 20X3, for inclusion in the statement of financial position?

- ○ $97,500
- ○ $100,000
- ○ $107,500
- ○ $115,000

(2 marks)

34.7 The debit side of a trial balance totals $400 more than the credit side.

Which one of the following errors would fully account for the difference?

- ○ $200 paid for building repairs has been correctly entered in the cashbook and credited to the building non-current asset account.
- ○ Purchases returns of $200 were debited to the sales returns account.
- ○ A receipt of $400 for commission receivable has been omitted from the records.
- ○ An invoice for $400 has been entered into the sales day book but omitted from the receivables ledger.

(2 marks)

34.8 Under IAS 1 *Presentation of Financial Statements*, which of the following **must** be disclosed on the **face** of the statement of profit or loss and other comprehensive income?

- ○ Profit before tax
- ○ Gross profit
- ○ Revenue
- ○ Dividends

(2 marks)

34.9 The following bank reconciliation has been prepared:

	$
Balance per bank statement (overdrawn)	73,680
Add: Outstanding lodgements	102,480
Less: Unpresented cheques	(87,240)
Balance per cash book (credit)	88,920

Assuming the amounts stated for items other than the cash book balance are correct, what should the cash book balance be?

- ○ $88,920 credit (as currently stated)
- ○ $120,040 credit
- ○ $58,440 debit
- ○ $58,440 credit

(2 marks)

34.10 In relation to statements of cash flows, which, if any, of the following are correct?

1 The direct method of calculating net cash from operating activities leads to a different figure from that produced by the indirect method, but this is balanced elsewhere in the statement of cash flows.

2 A company making high profits must necessarily have a net cash inflow from operating activities.

3 Profits and losses on disposals of non-current assets appear as items under cash flows from investing activities in the statement of cash flows or a note to it.

- ○ Item 1 only
- ○ Items 2 and 3 only
- ○ None of the items
- ○ All of the items **(2 marks)**

34.11 Which of the following items could appear on the credit side of a sales ledger control account?

1 Cash received from customers

2 Irrecoverable debts written off

3 Increase in the allowance for receivables

4 Sales

5 Credits for goods returned by customers

6 Cash refunds to customers

- ○ 1, 2 and 5
- ○ 1, 2 and 6
- ○ 3, 4 and 5
- ○ 3, 4, 5 and 6 **(2 marks)**

34.12 A business has compiled the following information for the year ended 31 October 20X2:

	$
Opening inventories	386,200
Purchases	989,000
Closing inventories	422,700

The gross profit percentage of sales is 40%

What is the sales revenue for the year?

- ○ $1,333,500
- ○ $1,587,500
- ○ $2,381,250
- ○ The sales revenue is impossible to calculate from this information. **(2 marks)**

34.13 On 30 September 20X1 part of the inventory of a company was completely destroyed by fire.

The following information is available:

- Inventory at 1 September 20X1 at cost $49,800
- Purchases for September 20X1 $88,600
- Sales for September 20X1 $130,000
- Inventory at 30 September 20X1 – undamaged items $32,000
- Standard gross profit percentage on sales 30%

Based on this information, what is the cost of the inventory destroyed?

○ $17,800

○ $47,400

○ $15,400

○ $6,400

(2 marks)

34.14 Catt sells goods at a margin of 50%. During the year to 31 March 20X3 the business made purchases totalling $134,025 and sales totalling $240,000. Inventories in hand at 31 March 20X3, valued at cost, was $11,385 higher than the corresponding figure at 1 April 20X2.

What was the cost of the goods Catt had drawn out?

○ $2,640

○ $14,590

○ $25,410

○ $37,360

(2 marks)

34.15 Thatch plc's current ratio this year is 1.33:1 compared to that of 1.25:1 last year. Which of the following would be possible explanations?

1 Thatch made an unusually large sale immediately prior to the year end.

2 Thatch paid its payables earlier than usual out of a bank overdraft.

3 Thatch made an unusually large purchase of goods for cash immediately prior to the year end and these goods remain in inventory.

4 Thatch paid its payables earlier than usual out of a positive cash balance.

○ 1 and 2 only

○ 2 and 3 only

○ 1 and 3 only

○ 1 and 4 only

(2 marks)

34.16 Lexus owns 60% of the voting equity of Nexus. The following information relates to the results of Lexus and Nexus for the year.

	Lexus	*Nexus*
	$'000	$'000
Revenue	350	150
Cost of sales	200	60
Gross profit	150	90

During the year, Nexus sold goods to Lexus for $50,000. Lexus still had 40% of these goods in inventory at the year end. Nexus uses a 25% mark up on all goods.

What were the consolidated sales and cost of sales of the Lexus group at the year end?

	Sales	*Cost of sales*
○	$500,000	$210,000
○	$500,000	$214,000
○	$450,000	$210,000
○	$450,000	$214,000

(2 marks)

34.17 At 1 July 20X0 the share capital and share premium account of a company were as follows:

	$
Share capital – 300,000 ordinary shares of 25c each	75,000
Share premium account	200,000

During the year ended 30 June 20X1 the following events took place:

(a) On 1 January 20X1 the company made a rights issue of one share for every five held, at $1.20 per share.

(b) On 1 April 20X1 the company made a bonus (capitalisation) issue of one share for every three in issue at that time, using the share premium account to do so.

What are the correct balances on the company's share capital and share premium accounts at 30 June 20X1?

	Share capital	*Share premium account*
○	$460,000	$287,000
○	$480,000	$137,000
○	$120,000	$137,000
○	$120,000	$227,000

(2 marks)

34.18 A statement of cash flows prepared in accordance with IAS 7 *Statement of Cash Flows* opens with the calculation of cash flows from operating activities from the net profit before taxation.

Which of the following lists of items consists only of items that would be **added** to net profit before taxation in that calculation?

○ Decrease in inventories, depreciation, profit on sale of non-current assets

○ Increase in trade payables, decrease in trade receivables, profit on sale of non-current assets

○ Loss on sale of non-current assets, depreciation, increase in trade receivables

○ Decrease in trade receivables, increase in trade payables, loss on sale of non-current assets

(2 marks)

(Total = 36 marks)

35 Mixed bank 7 **43 mins**

35.1 The following information was disclosed in the financial statements of Highfield Co for the year ended 31/12/20X2.

	20X1	*20X2*
	$	$
Plant & Equipment cost	255,000	235,000
Accumulated depreciation	(100,000)	(110,000)

During 20X2, the following occurred in respect of Plant & Equipment:

	$
Purchases of plant and equipment	10,000
Depreciation charged on plant and equipment	25,000
Loss on disposal of plant and equipment	8,000

What were the sales proceeds received on disposal of the plant and equipment?

○ $7,000

○ $15,000

○ $25,000

○ $8,000 **(2 marks)**

35.2 The issued share capital of Maelstrom Co is as follows:

Ordinary shares of 10c each	$1,000,000
8% Preferred shares of 50c each (redeemable)	$500,000

In the year ended 31 October 20X2, the company has paid the preferred dividend for the year and an interim dividend of 2c per share on the ordinary shares. A final ordinary dividend of 3c per share is declared on 30 October 20X2.

What is the total amount of dividends recognised in the financial statements relating to the year ended 31 October 20X2?

○ $580,000

○ $90,000

○ $130,000

○ $500,000 **(2 marks)**

35.3 When a company makes a rights issue of equity shares which of the following effects will the issue have?

1 Working capital is increased

2 Liabilities are increased

3 Share premium account is reduced

4 Investments are increased

○ 1 only

○ 1 and 2

○ 3 only

○ 1 and 4 **(2 marks)**

35.4 Which of the following may appear as current liabilities in a company's statement of financial position?

1 A revaluation surplus

2 Loan due for repayment within 1 year

3 Income tax payable

4 Preferred dividends payable on redeemable preference shares

○ 1, 2 and 3

○ 1, 2 and 4

○ 1, 3 and 4

○ 2, 3 and 4 **(2 marks)**

35.5 If a trial balance does not balance, which of the following errors might have caused this?

1 The discounts received column of the cash payments book was overcast.

2 Cash paid for the purchase of office furniture was debited to the general expenses account.

3 Returns inwards were included on the credit side of the trial balance.

○ 1 only

○ 1 and 2

○ 3 only

○ 2 and 3 **(2 marks)**

35.6 The following information is available about a company's dividends:

		$
20X5		
Sept	Final dividend for the year ended 30 June 20X5 paid (declared August 20X5)	100,000
20X6		
March	Interim dividend for the year ended 30 June 20X6 paid	40,000
Sept	Final dividend for the year ended 30 June 20X6 paid (declared August 20X6)	20,000

What figures, if any, should be disclosed in the company's statement of profit or loss and other comprehensive income for the year ended 30 June 20X6 and its statement of financial position as at that date?

	SPLOCI for the period	*SOFP liability*
○	$160,000 deduction	$120,000
○	$140,000 deduction	nil
○	nil	$120,000
○	nil	nil

(2 marks)

35.7 Which, if any, of the following statements about intangible assets are correct?

1 Deferred development expenditure must be amortised over a period not exceeding five years.

2 If the conditions specified in IAS 38 *Intangible Assets* are met, development expenditure may be capitalised, if the directors decide to do so.

3 Trade investments must appear in a company's statement of financial position under the heading of intangible assets.

○ 1 and 2

○ 2 and 3

○ 1 and 3

○ None of the statements is correct **(2 marks)**

35.8 A company owns a number of properties which are rented to tenants. The following information is available for the year ended 30 June 20X6:

	Rent in advance	*Rent in arrears*
	$	$
30 June 2005	134,600	4,800
30 June 2006	144,400	8,700

The rent income recognised in the company's statement of profit and loss for the year ended 30 June 20X6 was $828,700.

All rent in arrears was subsequently received.

What was the cash received from tenants in the year ended 30 June 20X6?

$ ______ **(2 marks)**

35.9 Which of the following transactions is an asset transaction?

○ Depreciation of plant and equipment

○ Expenditure on rent

○ Payment of interest on loan stock

○ Buying shares as an investment **(2 marks)**

35.10 Which of the following transactions would be shown as an expense in the statement of profit or loss?

○ Expenditure resulting in improvements to property

○ Expenditure on heat and light

○ Purchasing non-current assets

○ Repaying a bank overdraft **(2 marks)**

35.11 The payables ledger control account below contains a number of errors:

PAYABLES LEDGER CONTROL ACCOUNT

	$		$
Opening balance (amounts owed to suppliers)	318,600	Purchases	1,268,600
Cash paid to suppliers	1,364,300	Contras against debt balances in receivables ledger	48,000
Purchases returns	41,200	Discounts received	8,200
Refunds received from suppliers	2,700	Closing balance	402,000
	1,726,800		1,726,800

All items relate to credit purchases.

What should the closing balance be when all the errors are corrected?

- ○ $128,200
- ○ $509,000
- ○ $224,200
- ○ $144,600

(2 marks)

35.12 What are the journal entries for an accrual of rent expenses of $500?

- ○ DEBIT prepayments $500, CREDIT rent $500
- ○ DEBIT accrual $500, CREDIT rent $500
- ○ DEBIT rent $500, CREDIT accruals $500
- ○ DEBIT rent $500, CREDIT prepayments $500

(2 marks)

35.13 An electrical store and a cake shop both have the same mark up on cost. However, the gross profit margin of the electrical store is significantly higher than that of the cake shop.

Which of the following is a possible reason for this?

- ○ The cake shop has a higher turnover of inventory than the electrical store.
- ○ The electrical store takes advantage of trade-discounts for bulk buying.
- ○ The cake shop has a higher level of wastage of inventory than the electrical store.
- ○ The cake shop's revenue is increasing, while that of the electrical store is decreasing.

(2 marks)

35.14 Analysis of the statement of financial position of Charon for the year ended 20X9 reveals the following relationships:

Current ratio	2:1
Sales: current assets	5:1
Acid test ratio	1.5:1

If the sales for the year were $30 million, what is the value of inventory that will appear in the statement of financial position?

- ○ $1.5m
- ○ $10.5m
- ○ $3.0m
- ○ $4.5m

(2 marks)

35.15 Which of the following statements are correct?

1 If company A has an investment in company B that gives it control over the company B, then company B is classified as a subsidiary in the consolidated financial statements of company A.

2 If a company has associates, but not subsidiaries, it will not prepare consolidated financial statements.

3 If a company has a 21% investment in the voting equity of another company, it will account for its investment using the equity method in the consolidated financial statements.

○ 1 and 2

○ 2 and 3

○ All three statements are correct

○ None of the statements are correct **(2 marks)**

35.16 XYX Co's non-current assets had carrying amounts of \$368,400 and \$485,000 at the beginning and end of the year respectively. Depreciation for the year was \$48,600. Assets originally costing \$35,000, with a carrying amount of \$18,100 were sold in the year for \$15,000.

What were the additions to non-current assets in the year?

○ \$183,300

○ \$200,200

○ \$49,900

○ \$180,200 **(2 marks)**

35.17 At 1 November 20X9, Telway Co had an allowance for receivables of \$90,000. At 31 October 20X0, its trade receivables were \$1,232,000 of which \$60,000 was identified as unrecoverable and was written off. Telway Co's allowance for receivables has now been adjusted to the equivalent of 5% of remaining trade receivables.

What amount should be recorded in the statement of profit or loss for the receivables expense for the year ended 31 October 20X0?

○ \$58,600 debit

○ \$28,600 debit

○ \$31,400 credit

○ \$118,600 debit **(2 marks)**

35.18 Why do we prepare a trial balance?

○ To test the accuracy of the double entry bookkeeping records

○ To prepare management accounts

○ To prepare financial statements

○ To clear the suspense account **(2 marks)**

(Total = 36 marks)

Answers

1 The context and purpose of financial reporting

1.1 The correct answer is: The International Accounting Standards Board.

The role of the IASB is to develop and publish International Financial Reporting Standards.

1.2 The correct answer is: 2 and 3 only.

A sole trader does not have any shareholders. The financial statements are unlikely to be of interest to a financial analyst, they are more usually interested in the financial statements of public companies.

1.3 The correct answers are:

A supplier of goods on credit is interested only in the statement of financial position, ie an indication of the current state of affairs.		False
The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.	True	

(1) is false – although the supplier needs to know the current situation, the supplier also needs to be able to assess future prospects to ensure the entity has the ability to pay and to support an ongoing relationship.

(2) is the IASB's *Conceptual Framework* description of the purpose of financial statements, and is therefore true.

1.4 The correct answer is: 1 only.

2 is incorrect – shareholders are only liable for the debts of the business up to the amount they have invested in shares, whereas sole traders are liable for all of the debts of the business.

1.5 The correct answer is: Corporate governance is the system by which companies and other entities are directed and controlled.

1.6 The correct answer is: 1 only.

The responsibility of the financial statements rests with the directors, whether or not those financial statements are audited. Some of the duties of directors are statutory duties, laid down in law, including the duty to act within their powers, promote the success of the company and exercise reasonable skill and care.

1.7 The correct answer is: A list of all the assets owned and all the liabilities owed by a business.

The Statement of Financial Position contains a list of all the assets owned and all the liabilities owed by a business.

1.8 The correct answer is: A record of income generated and expenditure incurred over a given period.

The Statement of Profit or Loss contains a record of income generated and expenditure incurred over a given period.

1.9 The correct answer is: 3 only.

Unless a partnership is a limited liability partnership, the partners' individual exposure to debt is not limited because the partnership is not a separate legal entity from the partners themselves. Financial records must be maintained by a partnership, but there is no requirement to make them publicly available unless the partnership is a limited liability partnership.

ANSWERS

1.10 The correct answer is: 1, 2 and 3.

All three statements are true.

1.11 The correct answer is: 3 only.

The IFRS Advisory Council is a forum for the IASB to consult with the outside world. The IASB produces IFRSs and is overseen by the IFRS Foundation.

1.12 The correct answer is: Formulate international financial reporting standards.

The role of the IASB is to develop and publish international financial reporting standards.

1.13 The correct answer is: Ensure IFRSs focus primarily on the needs of global, multi-national organizations.

The IFRS Foundation does not focus primarily on the needs of global, multi-national organisations. One of the objectives of the foundation is to take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs).

1.14 The correct answer is: To provide examples of best financial reporting practice for national bodies who develop their own requirements.

One of the ways IFRSs are used is as an international benchmark for those countries which develop their own requirements.

2 The qualitative characteristics of financial information

2.1 The correct answer is: The business entity concept.

2.2 The correct answer is: The accruals concept.

2.3 The correct answer is: The materiality concept.

2.4 The correct answer is: 1 and 4.

Information has the quality of faithful representation when it is complete, neutral and free from material error.

2.5 The correct answer is: Consistency. To maintain consistency, the presentation and classification of items in the financial statements should stay the same from one period to the next, unless a change is required by an IFRS or unless there is a significant change in the nature of operations or a review of the accounts indicates a more appropriate presentation.

2.6 The correct answer is: 1 and 3.

Relevance and faithful representation.

2.7 The correct answer is: Financial information should be complete, neutral and free from error.

The first option describes accruals.

The second option describes timeliness.

The third option describes comparability.

2.8 The correct answer is: Statement 1 only is correct.

2 Materiality concerns whether an item in the financial statements can influence users' decisions.

3 Information should be a faithful representation of the economic phenomena it purports to represent. This includes being neutral, ie without bias in the selection or presentation of the financial information. Therefore information must not be manipulated in any way in order to influence the decisions of the users.

2.9 The correct answer is: Statement 2 only is correct. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Statement 1 describes the opposite of the accruals concept. Statement 3 is also incorrect, faithful representation does not prevent estimates being made.

2.10 The correct answer is: Relevance, Faithful representation, Comparability, Verifiability, Timeliness and Understandability.

2.11 The correct answer is: Accruals.

The accruals concept is not a qualitative characteristic of financial information.

2.12 The correct answer is: Providing reliable investment advice.

Providing information regarding the financial position and performance of a business are primary objectives of financial statements. All classes of users require information for decision making.

2.13 The correct answers are:

Companies should never change the presentation or classification of items in their financial statements, even if there is a significant change in the nature of operations.		Incorrect
Companies should create provisions in times of company growth to be utilised in more difficult times, to smooth profits.		Incorrect

(1) is incorrect. The presentation or classification can be changed if there is a significant change in the nature of operations, if an IFRS requires it, or if a review of the accounts indicates a more appropriate presentation.

(2) is incorrect. Companies should not make provisions in order to smooth profits. Provisions should only be made in accordance with IAS 37.

2.14 The correct answer is: Prudence does not allow for overstatement of liabilities.

The other options are incorrect. Prudence is a component of neutrality. It does not allow for overstatement or understatement of assets, liabilities, income or expenses.

3 Double entry bookkeeping I

3.1 The correct answer is: Assets – liabilities – opening capital + drawings = profit.

Phrased another way, assets – liabilities = opening capital + profits – drawings

3.2 The correct answer is: Closing capital – opening capital = increase in net assets.

This is the correct form of the accounting equation.

3.3 The correct answer is: Increase in net assets = profit + new capital – drawings

= \$(72,500 + 8,000 – 2,200)

= \$78,300

Therefore, closing net assets = \$(101,700 + 78,300) = \$180,000.

3.4 The correct answer is: $55,500

Increase in net assets = profit + new capital – drawings

= $(35,400 + 10,200 – 6,000)

= $39,600

Opening capital = opening net assets = $(95,100 – 39,600) = $55,500.

3.5 The correct answer is: The selling price is not relevant to this adjustment.

3.6 The correct answer is: The lengthening of the period of credit given to customers.

This will mean less cash coming into the bank.

Option 1: Sale of an asset will bring in cash; whether it was sold at a profit or loss is irrelevant.

Option 2: Depreciation reduces profit but has no cash effect.

Option 4: Slowing down payments to suppliers will increase bank balances.

3.7 The correct answer is: $54,000 profit.

Increase in net assets	=	Capital introduced + profit – drawings
184,000 – 128,000	=	50,000 + profit – 48,000
Profit	=	56,000 – 50,000 + 48,000
	=	$54,000

3.8 The correct answer is:

DEBIT Purchases	$400	
DEBIT Trade Payables	$250	
CREDIT Cash		$650

A payment is a credit to the cash account. The payment to J Bloggs is a cash purchase and so the double entry is DEBIT Purchases, CREDIT Cash. Remember that the purchase from J Doe has already been recorded as DEBIT Purchases, CREDIT Trade Payables, so the payment of cash to clear the invoice should now be recorded as DEBIT Trade Payables, CREDIT Cash.

3.9 The correct answer is:

DEBIT Receivables	$150	
DEBIT Sales Returns	$300	
CREDIT Sales		$150
CREDIT Cash		$300

The double entry for the sale of goods on credit is DEBIT Receivables, CREDIT Sales $150. The return of goods previously sold for cash is DEBIT Sales Returns, CREDIT Cash $300.

3.10 The correct answer is: Debit note.

A debit note is sent to a supplier with a return of goods. A debit note is in effect a request for a credit note.

3.11 The correct answer is: 1, 2 and 3 only.

The journal, cash book and sales day book are books of prime entry. The purchases day book is the book of prime entry for purchases, not the purchase ledger.

3.12 The correct answer is: The purchase returns day book.

Debit notes sent to suppliers are recorded in the purchase returns day book.

3.13 The correct answer is: $186,450 DEBIT.

Balance carried down from previous period shows debits exceed credits and so it is a debit balance brought down for the new period.

3.14 The correct answer is: $14,000 CREDIT.

The opening balance on the ledger is $14,000 CREDIT, this is the amount that would have appeared in the trial balance at 1 October 20X0.

3.15 The correct answer is: Sales invoices.

Cash received is recorded in the cash book. Credit notes received are to do with returned purchases (not sales). Trade discounts are not recorded, as they are deducted on the sales invoices and only the net sale is recorded.

3.16 The correct answers are:

A debit records an increase in liabilities.		False
A debit records a decrease in assets.		False
A credit records an increase in liabilities.	True	
A credit records an decrease in capital.		False

A debit records an increase in assets or a decrease in liabilities. A credit records an increase in liabilities and/or capital. Therefore only the third statement is true.

3.17 The correct answer is: Debit purchases, Credit payables control.

Remember that only credit purchases are listed in the purchases daybook.

3.18 The correct answer is: An imprest system for petty cash helps with management of small cash expenditures and reduces the risk of fraud.

The amount paid in to replenish petty cash at the beginning of each period should be the amount of petty cash spending in the previous period, which is the total of expenditures shown by petty cash vouchers for the previous period. The amount of petty cash at any time is the maximum petty cash balance minus the value of the petty cash vouchers for the period.

3.19 The correct answer is: Petty cash voucher.

The petty cash voucher is a record that cash has been issued for an approved item of expense. The receipt is evidence of the amount of the expense. The petty cash book is used to record the transaction in the bookkeeping system.

4 Double entry bookkeeping II

4.1 The correct answer is: $534

SALES DAY BOOK

20X9		$
1 May	P Dixon	160
4 May	M Maguire ($80 × 87.5%)	70
5 May	M Donald	304
		534

4.2 The correct answer is: $823

PURCHASES BOOK

20X9		$
2 May	A Clarke (W1)	323
4 May	D Daley	400
6 May	G Perkins	100
		823

W1 $\$380 \times \frac{85}{100} = \$323$

4.3 The correct answer is:

DEBIT Purchases	$450	
DEBIT Trade Payables	$250	
CREDIT Purchase Returns		$700

The purchase of goods on credit is recorded as DEBIT Purchases, CREDIT Trade Payables $450. The return of goods which were purchased on credit is recorded as DEBIT Trade Payables, CREDIT Purchase Returns, combining both entries gives the answer above.

4.4 The correct answer is:

DEBIT Cash
CREDIT Sales
CREDIT Trade Receivables

Cash received is a debit to the cash account. The cash received from R Singh is offset against the trade receivable balance due from R Singh: DEBIT Cash, CREDIT Trade Receivables. The cash received from S Kalu is a cash sale: DEBIT Cash, CREDIT Sales.

4.5 The correct answer is:

DEBIT	*CREDIT*
Receivables Control Account	Sales

Remember the receivables account is a memorandum account.

4.6 The correct answers are:

A debit entry in the cash book will increase an overdraft in the accounts.		False
A debit entry in the cash book will increase a bank balance in the accounts.	True	

When cash is received by a business, a debit entry is made in the cashbook. A receipt of cash decreases an overdraft and increases a bank balance.

4.7 The correct answer is: $474,485 CREDIT.

TRADE PAYABLES ACCOUNT

	$		$
Cash at bank	100,750	Balance b/d	250,225
Balance c/d	474,485	Purchases	325,010
	575,235		575,235

4.8 The correct answer is: $79,000.

Credit sales = $80,000 – $10,000 + $9,000 = $79,000.

4.9 The correct answer is: DEBIT purchases $100, CREDIT payables $50, CREDIT cash $50.

The first option is incorrect as the debits and credits don't equal each other, the second option is incorrect as the debits and credits are the wrong way round and the fourth option is incorrect as the credit purchase has been ignored.

4.10 The correct answer is

TOKEN		DEBIT ENTRY	CREDIT ENTRY
		Receivables $250	
			Sales $250
Purchases $250			
Payables $250			
Cash $250			

You are recording the transaction in Steel Co's books – Steel Co is the seller, so the double entry is DEBIT receivables, CREDIT sales.

4.11 The correct answer is: $22,000.

	$	$
Sales		40,000
Returns inwards		(2,000)
		38,000
Opening inventory	3,000	
Purchases	20,000	
Returns outwards	(4,000)	
Closing inventory	(3,000)	
		(16,000)
Gross profit		22,000

4.12 The correct answer is: An asset of $71,192.

The receivables allowance is deducted from trade receivables and the net figure of $71,192 ($75,943 – $4,751) is reported in the statement of financial position.

4.13 The correct answer is: Assets are represented by debit balances.

The first option is incorrect because some debit balances are assets.

The third and fourth options are incorrect because income and liabilities are credit balances.

4.14 The correct answer is: CREDIT $8,500 and DEBIT $678.

The two balances must be separately disclosed. The cash balance is an asset and the loan is a non-current liability.

4.15 The correct answer is: $284,931.

The debits are as follows:

	$
Opening inventory	9,649
Purchases	142,958
Expenses	34,835
Non-current assets	63,960
Receivables	31,746
Cash at bank	1,783
	284,931

4.16 The correct answer is: $17,649.

(5,754 + 11,745 + 150)

4.17 The correct answer is: By preventing transactions from being processed inaccurately.

No system can prevent a transaction being processed inaccurately, for example being posted to an incorrect but valid account code (although an effective system can reduce the likelihood of this).

4.18 The correct answer is:

Cash purchases are recorded in the purchases day book.		False
The sales day book is used to keep a list of invoices received from suppliers.		False

Cash purchases are recorded in the cash book. The sales day book lists invoices sent to customers, not invoices received from suppliers.

5 Sales tax

5.1 The correct answer is: The company sold some products to businesses not registered for sales tax.

The first, second and third options could all be reasons why the output tax does not equal 20% of sales. The fourth option is incorrect as it makes no difference whether the customer is registered for sales tax or not.

5.2 The correct answer is: $11,910

SALES TAX CONTROL ACCOUNT

	$		$
		b/d	4,540
Purchases ($64,000 × 15%)	9,600	Sales ($109,250 × 15%/115%)	14,250
∴ Cash	11,910	c/d	2,720
	21,510		21,510

5.3 The correct answer is: DEBIT Purchases $575, CREDIT Payables $575.

Alana is not registered for sales tax purposes and therefore cannot reclaim the input sales tax of $75.

5.4 The correct answer is: $7,000.

SALES TAX CONTROL ACCOUNT

	$		$
Purchases ($65,000 × 20%)	13,000	Sales ($120,000 × 20% / 120%)	20,000
∴ Paid to tax authority	7,000		
	20,000		20,000

5.5 The correct answer is: Assets $2,600 less Liabilities $1,000 equals Capital $1,600.

	$
Assets	
Opening cash	1,000
Cash received $(1,000 + 200 sales tax)	1,200
Closing cash	2,200
Inventory $(800 – 400)	400
	2,600
Liabilities	
Opening liabilities	–
Sales tax payable $(200 – 160)	40
Purchase inventory $(800 + 160 sales tax)	960
Closing liabilities	1,000
Capital	
Opening capital	1,000
Profit on sale of inventory $(1,000 – 400)	600
Closing capital	1,600

5.6 The correct answer is: Inclusive of sales tax in the statement of financial position.

Receivables and payables include sales tax where applicable.

5.7 The correct answer is: Credited with the total of sales made, excluding sales tax

The sales tax element of the invoices will go to the sales tax account in the statement of financial position.

5.8 The correct answer is: $962.50 CREDIT.

	$
Output sales tax $27,612.50 × $\frac{17.5}{117.5}$	4,112.50
Input sales tax $18,000 × $\frac{17.5}{100}$	3,150.00
∴ Balance on sales tax a/c (credit)	962.50

6 Inventory

6.1 The correct answer is: $952,750.

950,000 – 11,750 + 1,500 + (14,950 × 100/115) = $952,750

6.2 The correct answer is: 1, 3 and 5 only.

Carriage outwards and storage are distribution costs. 1, 3 and 5 only.

6.3 The correct answer is: $281,200.

	$
Original value	284,700
Coats – Cost 400 × $80	(32,000)
– NRV ($75 × 95%) × 400	28,500
	281,200

At 31 January 20X3 the skirts were correctly valued at costs incurred to date of $20 per skirt which was lower than the NRV of $22. Therefore no adjustment is required for the value of the skirts.

6.4 The correct answer is: $188,500.

	$
50 @ $190	9,500
500 @ $220	110,000
300 @ $230	69,000
	188,500

6.5 The correct answers are:

Inventory items are normally to be valued at the higher of cost and net realisable value.		Incorrect
The cost of goods manufactured by an entity will include materials and labour only. Overhead costs cannot be included.		Incorrect
LIFO (last in, first out) cannot be used to value inventory.	Correct	
Selling price less estimated profit margin may be used to arrive at cost if this gives a reasonable approximation to actual cost.	Correct	

Statement (1) is incorrect because inventory should be valued at the lower of cost and NRV, not the higher.

Statement (2) is incorrect because production overheads based on a normal level of production should be included.

6.6 The correct answer is: $461,500.

	$
Inventory check balance	483,700
Less: goods from suppliers	(38,400)
Add: goods sold	14,800
Less: goods returned	(400)
Add: goods returned to supplier	1,800
	461,500

6.7 The correct answer is: The current year's profit will be understated and next year's profit will be overstated.

If closing inventory is understated, cost of sales will be overstated. Next year opening inventory will be understated and cost of sales will be understated.

6.8 The correct answer is: $529,200

	$
Inventory count, 4 January 20X2	527,300
Purchases since end of year	(7,900)
Cost of sales since end of year (15,000 × 60%)	9,000
Purchase returns since end of year	800
Inventory at 31 December 20X1	529,200

6.9 The correct answer is: Production overheads should be included in cost on the basis of a company's normal level of activity in the period.

IAS 2 emphasises that production overheads must be allocated to items of inventory on the basis of the normal capacity of the production facilities. Although trade discounts should be deducted, selling costs must not be included in the cost of inventories. IAS 2 does not allow the use of LIFO. Production overheads are part of the costs of conversion of finished goods, and so do form part of the valuation.

6.10 The correct answer is: $40,755.

	$
Original inventory valuation	41,875
Cost of damaged items	(1,960)
NRV of damaged items (1,200 – 360)	840
	40,755

6.11 The correct answer is: $4,700.

	Cost	*Net realisable value*	*Lower of cost & NRV*	*Units*	*Value*
	$	$	$		$
Basic	6	8	6	200	1,200
Super	9	8	8	250	2,000
Luxury	18	10	10	150	1,500
					4,700

6.12 The correct answer is: $2,950.

$2,950 (10 units @ $45 and 50 units @ $50)

6.13 The correct answer is: Plant depreciation, carriage inwards, raw materials, Supervisor's wages.

Carriage outwards (in the first and fourth options) is a selling expense, so should not be included in the cost of the inventory.

IAS 2 states that storage costs should not be included in the cost of inventory unless they are necessary in the production process before a further production stage. As such, storage of finished goods (in the second option) should not be included in the cost of inventory.

6.14 The correct answer is: $122,900.

	$
	116,400
Line 1: (400 × $3) – $200	1,000
Line 2: (200 × $35) – $300 – $1,200	5,500
	122,900

6.15 The correct answer is: $838,100.

	$
Inventory count value	836,200
Less: purchases	(8,600)
Add: sales (14,000 × 70/100)	9,800
Add: goods returned	700
Inventory figure	838,100

ANSWERS

6.16 The correct answer is: $132,900.

The cost of materials used should be based on opening and closing valuations of inventory at AVCO.

	$
Opening inventory	56,200
Purchases	136,500
	192,700
Less: Closing inventory	(59,800)
Cost of materials used	132,900

6.17 The correct answer is: A continuous inventory system removes the need for periodic physical inventory counts.

Continuous inventory reduces the need for physical inventory counts, but in practice periodic counts are needed to ensure that the recorded quantities of inventory match the physical quantities that are held (and, for example, there have not been significant losses of inventory due to theft).

6.18 The correct answer is: $1,800.

Date	*Units*	*Unit cost*	*Cost of issues* $	*Balance in inventory* $
1 March	50	$40		2,000
17 March	50	$50		2,500
	100	$45*		4,500
31 March	(60)	$45	2,700	
	40	$45		1,800

* 4,500 / 100

6.19 The correct answer is: $2,007.20.

Date		*Units*	*Cost per unit* $		*Average cost per unit* $	*Total Cost* $
1 Jan 20X1	Bal b/f	0	0			
1 Feb 20X1	Buy	10	300		300	3,000
11 Feb 20X1	Buy	12	250			3,000
		22		(W1)	272.73	6,000
1 Apr 20X1	Sell	(8)	272.73		272.73	(2,182)
1 Aug 20X1	Buy	6	200			1,200
		20		(W2)	250.90	5,018
1 Dec 20X1	Sell	(12)	250.90		250.90	(3,011)
Closing		8			250.90	2,007.20

$$W1 = \frac{6,000}{22\,\text{units}} = \$272.73 \quad W2 = \frac{5,018}{20\,\text{units}} = \$250.90$$

6.20 The correct answer is: $2,007.20.

$	2,057.12

$$\frac{\text{Total cost}}{\text{Total units}} = \text{periodic weighted AVCO.}$$

$$\frac{(10 \times \$300) + (12 \times \$250) + (6 \times \$200)}{10 + 12 + 6} = \frac{\$7,200}{28\,\text{units}} = \$257.14 \text{ per unit}$$

Closing inventory = (10 + 12 – 8 + 6 – 12) = 8 units

Value of closing inventory $2,057.12 ($257.14 × 8 units)

7 Tangible non-current assets I

7.1 The correct answer is: To allocate the cost of a non-current asset over the accounting periods expected to benefit from its use.

It is **never** the second option as funds are not set aside, nor the third option, this is revaluation, nor the fourth – depreciation has nothing to do with the wearing out of assets, depreciation is an application of the matching concept and allocates the cost of the asset over the accounting periods expected to benefit from its use.

7.2 The correct answer is: An internal control to ensure information relating to non-current assets in the nominal ledger and the financial statements is correct.

7.3 The correct answer is: $62,210.

	$
Balance b/d	67,460
Less: Carrying amount of non-current asset sold (4,000 + 1,250)	5,250
	62,210

7.4 The correct answer is: Asset with disposal proceeds of $15,000 and a profit on disposal of $5,000.

If disposal proceeds were $15,000 and profit on disposal is $5,000, then carrying amount must be $10,000, the difference between the asset register figure and the non-current asset account in the nominal ledger.

7.5 The correct answer is: An overstatement of profit and an overstatement of non-current assets.

An expense has been posted as a non-current asset.

7.6 The correct answer is: Assets which are intended to be used by the business on a continuing basis, including both tangible and intangible assets that do not meet the IAS 1 definition of a current asset.

The first option describes current assets.

The third option describes intangible assets.

The fourth option describes inventory.

7.7 The correct answer is: $74,000.

	$
Valuation	210,000
Carrying amount (170,000 × 16/20)	(136,000)
Revaluation surplus	74,000

7.8 The correct answer is: Understated by $18,400.

	$
Repairs cost overstated	20,000
Depreciation understated ((20,000 – 4,000) × 20% × 6/12)	(1,600)
Profit understated	18,400

7.9 The correct answer is: $43,000.

	$
Plant held all year (200,000 – 40,000) × 20%	32,000
Disposal 40,000 × 20% × 9/12	6,000
Additions 50,000 × 20% × 6/12	5,000
	43,000

7.10 The correct answer is: $55,000.

	$
Plant held all year (240,000 – 60,000) × 20%	36,000
Addition 160,000 × 20% × 6/12	16,000
Disposal 60,000 × 20% × 3/12	3,000
	55,000

7.11 The correct answer is: $23,375.

Cost less 4 months depreciation = 25,500 – 2,125 = $23,375.

7.12 The correct answer is: $86,000.

	$
Purchase price of machine	80,000
Installation	5,000
Testing	1,000
	86,000

Staff training cannot be capitalised as part of the cost of the asset.

7.13 The correct answer is: DEBIT Non-current assets – cost, CREDIT Payables.

7.14 The correct answer is:

DEBIT Accumulated depreciation	$35,000	
DEBIT Loss on disposal (SPL)	$15,000	
DEBIT Cash	$50,000	
CREDIT Non-current assets – cost		$100,000

Using T-accounts:

PLANT AND MACHINERY ACCOUNT

	$		$
Balance b/d	100,000	Plant and machinery disposals a/c	100,000

PLANT AND MACHINERY ACCUMULATED DEPRECIATION

	$		$
Plant and machinery disposals	35,000	Balance b/d	35,000

PLANT AND MACHINERY DISPOSALS

	$		$
Plant and machinery account	100,000	Accumulated depreciation	35,000
		Cash	50,000
		SPL (loss on sale)	15,000
	100,000		100,000

7.15 The correct answers are:

IAS 16 *Property, Plant and Equipment* requires entities to disclose the purchase date of each asset.		False
The carrying amount of a non-current asset is the cost or valuation of that asset less accumulated depreciation.	True	
IAS 16 *Property, Plant and Equipment* permits entities to make a transfer from the revaluation surplus to retained earnings for excess depreciation on revalued assets.	True	
Once decided, the useful life of a non-current asset should not be changed.		False

IAS 16 does not require the purchase date of each asset to be disclosed. The carrying amount of an asset = cost/valuation – accumulated depreciation. The useful life of an asset is determined upon acquisition and should be reviewed at least annually and depreciation rates adjusted for the current and future periods if expectations vary significantly from the original estimates. When an asset is revalued, IAS 16 permits entities to make a transfer from the revaluation surplus to retained earnings of the excess depreciation arising due to the revaluation.

7.16 The correct answer is: $50,000.

The depreciation charge is calculated based on the remaining useful life at the date of the revaluation: 1,000,000/20 years = $50,000

7.17 The correct answer is:

TOKEN		DEBIT ENTRY	CREDIT ENTRY
		Revaluation surplus $20,000	
			Retained earnings $20,000
Revaluation surplus $12,500			
Retained earnings $12,500			

The excess deprecation is the new depreciation amount of $50,000 less the old depreciation charge of $30,000 ($750,000/25 years) which is $20,000. This amount should be debited from the revaluation surplus and credited to retained earnings each year. Remember that both retained earnings and the revaluations surplus are credit balances in the trial balance.

7.18 The correct answer is: 1, 2, 3 and 4.

The disclosure requirements in IAS 16 are comprehensive, particularly in relation to revalued assets.

7.19 The correct answer is: DEBIT, Revaluation surplus $2,000, CREDIT, Retained earnings $2,000.

In this question the consequence of the revaluation to $432,000 is a higher annual depreciation charge. The difference between the new depreciation charge based on the revalued carrying amount and the old depreciation charge based on £400,000 original cost is known as the excess depreciation.

IAS16 allows entities to transfer an amount equal to the excess depreciation from the revaluation surplus to retained earnings in the equity section of the statement of financial position. As X Co wishes to make the transfer, the calculations are as follows:

Old depreciation = $400,000/40 years = $10,000 New depreciation = $432,000/36 years = $12,000

Excess depreciation = $12,000 – $10,000 = $2,000

An amount of $2,000 which represents the excess depreciation can be transferred each year from the revaluation surplus to retained earnings.

The correct accounting entries would be:

Debit Revaluation surplus $2,000 Credit Retained earnings $2,000

8 Tangible non-current assets II

8.1 The correct answer is: $781 profit

	$
Cost	10,000
20X0 Depreciation (25% reducing balance)	2,500
	7,500
20X1 Depreciation	1,875
	5,625
20X2 Depreciation	1,406
	4,219
20X3 Part exchange	5,000
Profit	781

Note. The road tax is an expense. It does not form part of the cost of the car.

8.2 The correct answer is: $150,000.

	$	$
Carrying amount at 1 August 20X0		200,000
Less depreciation		(20,000)
Proceeds	25,000	
Loss	5,000	
Therefore carrying amount		(30,000)
		150,000

8.3 The correct answer is: Understated by $36,100.

DEBIT	Property, plant and equipment	$38,000
CREDIT	Plant repairs	$38,000
DEBIT	Dep'n expense	$1,900
CREDIT	Accumulated dep'n	$1,900

Profit is understated by $38,000 – $1,900 = $36,100

8.4 The correct answer is: $2,500.

$$\frac{\$30{,}000 - \$6{,}000}{4 \text{ years}} \times \frac{5 \text{ months}}{12 \text{ months}} = \$2{,}500$$

8.5 The correct answer is: Depreciation charge, 25,000, Revaluation surplus, 360,000.

Depreciation charge – (1,000,000/40) = $25,000

Revaluation surplus – (1,000,000 – (800,000 – (800,000 × 2% × 10))) = $360,000

8.6 The correct answer is: Expenditure relating to the acquisition or improvement of non-current assets.

Improvements are asset expenditure, repairs and maintenance are not.

8.7 The correct answer is: An illuminated sign advertising the business name.

An illuminated sign advertising the business name will provide long-term benefits for the business and is therefore a non-current asset, ie asset expenditure. A replacement for a broken window is a repair, so it is expenditure in the statement of profit or loss. Repainting the restaurant is a repair and renewal expense so it would be likely to be treated as an expense in the statement of profit or loss. Cleaning of the kitchen floors is a maintenance cost and is therefore shown as an expense in the statement of profit or loss.

8.8 The correct answer is: Road tax.

Number plates, stereo and delivery costs are included in the non-current asset cost of the car. Road tax is an annual expense in the statement of profit or loss.

8.9 The correct answer is: $40,900.

	$
Water treatment equipment	39,800
Delivery	1,100
	40,900

8.10 The correct answer is: A computer used in the office.

The first option is a receivable, the second and fourth options are inventory.

8.11 The correct answer is: 3 only.

Items 1 and 2 are non-current assets. Only item 3 is a current asset.

8.12 The correct answer is: Assets which are expected to be converted into cash in the short-term.

8.13 The correct answer is: To record the purchase of the asset:

DEBIT Non-current assets – cost	$15,000	
CREDIT Payables		$15,000

Depreciation charge is 15,000 × 15% × 2/12 = $375

8.14 The correct answer is: $585,000.

The revaluation surplus at 30 June 20Y8 was $600,000 ($1,600k – $1,000k). The old deprecation charge was $25,000 ($1,250,000/50 years) per year. The new depreciation charge is $40,000 ($1,600,000/40 years), so the excess depreciation is $15,000 per year. The balance on the revaluation surplus is therefore $600,000 – $15,000 = $585,000 at 30 June 20Y9.

8.15 The correct answer is: A profit on disposal $500.

	$
Carrying amount at disposal (15,000 – 10,000)	5,000
Trade-in allowance	5,500
Profit on disposal	500

8.16 The correct answer is: $52,500.

Carrying amount at 1.1.X3 = 100,000 – (100,000 × 2/5) = $60,000

New depreciation charge = Carrying amount/Revised useful life = $60,000/8 years = $7,500

Carrying amount at 31.12.X3 = $60,000 – $7,500 = $52,500

ANSWERS

8.17 The correct answer is: $7,000.

Carrying amount at 1.10.X8: 34,000 – ((34,000 – 4,000) × 3/5) = $16,000

Revised depreciation charge: (Carrying amount – revised residual value)/remaining useful life

= (16,000 – 2,000)/2 = $7,000.

8.18 The correct answer is:

DEBIT Depreciation charge	$6,000	
CREDIT Accumulated depreciation		$6,000

8.19 The correct answer is: $792,000.

In the 5 years to 31 December 20X5, accumulated depreciation on the building is $1,600,000 × 2% × 5 years = $160,000.

On revaluation on 1 January 20X6:

	DEBIT	*CREDIT*
	$	$
Building (2,250,000 – 1,600,000)	650,000	
Accumulated depreciation	160,000	
Revaluation surplus		810,000

The annual depreciation charge from 1 January 20X6 = $2,250,000/45 years remaining = $50,000. This is $18,000 more than the annual depreciation charge based on the historical cost of the asset.

This excess depreciation charge is transferred each year from revaluation surplus to retained earnings, and the revaluation surplus at 31 December 20X6 = $810,000 – $18,000 = $792,000.

8.20 The correct answer is: Profit of $7,500.

Annual depreciation was initially $1,000,000/50 years = $20,000.

After revaluation, annual depreciation is $1,200,000/48 years = $25,000.

		$
Valuation, 1 January 20X5		1,200,000
Accumulated depreciation to 30 June 20X5	(6/12 × $25,000)	12,500
Carrying amount at 30 June 20X5		1,187,500
Sale/disposal price		1,195,000
Profit on disposal in statement of profit or loss		7,500

Note. The balance on the revaluation surplus at 30 June will be transferred to realised profits (retained profits reserve), but this will not be reported as profit in the statement of profit or loss.

8.21 The correct answer is: $110,000.

	$	$
Disposal proceeds		800,000
Carrying amount at 1 January 20X7	750,000	
Depreciation ((750,000/25) × 2)	(60,000)	
		(690,000)
Profit on disposal		110,000

The $50,000 held in the revaluation surplus will be transferred to retained earnings on disposal.

8.22 The correct answer is: $Nil.

	$	$
Disposal proceeds		450,000
Carrying amount at 1 January 20X4	600,000	
Depreciation ((600,000/30) × 2)	(40,000)	
		(560,000)
Shortfall		(110,000)

There is no loss to be charged to profit or loss. The shortfall of $110,000 will be set against the $200,000 held in the revaluation surplus in respect of the building. The balance remaining in the revaluation surplus ($90,000) is transferred to retained earnings on disposal.

9 Intangible non-current assets

9.1 The correct answers are:

Research expenditure, other than asset expenditure on research facilities, should be recognised as an expense as incurred.	True	
In deciding whether development expenditure qualifies to be recognised as an asset, it is necessary to consider whether there will be adequate finance available to complete the project.	True	
Development expenditure recognised as an asset must be amortised over a period not exceeding five years.		False

There is no requirement that development expenditure should be amortised over a period not exceeding five years.

9.2 The correct answer is: 2 and 4 only.

1 Development expenditure must be capitalised if the criteria are met.

3 There is no time scale given by IAS 38 for amortisation.

9.3 The correct answer is: 2 and 3.

Development costs are amortised over the useful life of the project. This is not confined to five years.

9.4 The correct answer is: GHK spent $12,000 researching a new type of product. The research is expected to lead to a new product line in three years' time.

Research expenditure can never be capitalised and must be recognised as an expense in the statement of profit or loss in accordance with IAS 38.

9.5 The correct answer is: 1, 2 and 3 only.

A factory is a tangible asset as it has physical form. The others are intangible assets.

9.6 The correct answer is: $56,000.

The $12,000 spent on converting seaweed does not meet the recognition criteria for an intangible asset and so must be recognised as an expense in profit or loss.

The $60,000 relating to the headache pill must be capitalised. Amortisation must start once commercial production begins and amortisation is $1,000 per month ($60,000/5 years).

The value at the year end represents $60,000 less four months' amortisation.

9.7 The correct answer is: $35,000.

The $27,000 research costs are not directed towards a confirmed outcome and so should be recognised as an expense. The $8,000 market research costs suggest that the commercial viability of the product has not yet been determined and so the capitalisation criteria have not yet been satisfied.

9.8 The correct answer is: 2 and 3.

The benefits flowing from the completed development are expected to be less than its cost.

Funds are unlikely to be available to complete the development.

A project that is not commercially viable would not be capitalised.

The company must have adequate resources to fund the project for it to be capitalised.

9.9 The correct answer is: $25,000.

The patent should be amortised over its useful life of ten years. (250,000/10) = $25,000

9.10 The correct answer is:

DEBIT Expenses	$5,000	
CREDIT Accumulated amortisation		$5,000

The amortisation charge is $15,000/3 years = $5,000 per annum. The double entry to record the amortisation is DEBIT expenses, CREDIT accumulated amortisation.

9.11 The correct answer is: To allocate the cost of an intangible non-current asset over its useful life.

Amortisation is an application of the matching concept and allocates the cost of the intangible asset over its useful life (over the accounting periods expected to benefit from its use).

9.12 The correct answer is: 3 only.

A patent has no physical substance and provides future economic benefits; it is therefore an intangible non-current asset.

Computer hardware is a tangible non-current asset as it is physical in substance and provides future economic benefits.

Operating software that operates the computer hardware on first glance may appear to be an intangible non-current asset. However, since it is an integral part of the computer hardware (which could not function without it), it is classed as part of the computer hardware.

A building extension has physical substance and provides future economic benefits and is therefore a tangible non-current asset.

10 Accruals and prepayments

10.1 The correct answer is: $34,000 CREDIT, Rent received in advance (CREDIT) $3,000.

	$	
Receipt		
1 October 20X1 ($7,500 × 1/3)	2,500	
30 December 20X1	7,500	
4 April 20X2	9,000	
1 July 20X2	9,000	
1 October 20X2 (9,000 × 2/3)	6,000	(3,000 CREDIT; rent in advance)
Credit to statement of profit or loss	34,000	

10.2 The correct answer is: Rent expense 100,000, Accrual 10,000.

	$
February to March 20X2 (22,500 × 2/3)	15,000
April to June	22,500
July to September	22,500
October to December	30,000
January 20X3 (30,000 × 1/3)	10,000
Rent for the year	100,000

Accrual 30,000 × 1/3 = 10,000

10.3 The correct answer is: $33,100.

	$
Payments made	34,600
Add: opening balance	8,200
Less: opening accrual	(3,600)
Less: closing balance	(9,300)
Add: closing accrual	3,200
	33,100

10.4 The correct answer is: Rent receivable $9,900, Statement of financial position $1,000 in sundry payables.

	$
Statement of profit or loss	
December to June 8,400 × 7/12	4,900
July to November 12,000 × 5/12	5,000
	9,900

Sundry payables 12,000 × 1/12 = 1,000 (December rent received in advance)

10.5 The correct answer is: $70,000.

	$
August to September 60,000 × 2/12	10,000
October to July 72,000 × 10/12	60,000
	70,000

10.6 The correct answer is: $87,700.

Diesel fuel payable account

	$
Balance b/fwd	(1,700)
Payments	85,400
Balance c/fwd	1,300
Purchases	85,000

Cost of fuel used

	$
Opening inventory	12,500
Purchases	85,000
Closing inventory	(9,800)
Transfer to SPL	87,700

10.7 The correct answer is: Accrued $560, Charge to SPL $3,320

ELECTRICITY ACCOUNT

		$		$
			Balance b/fwd	300
20X0:				
1 August	Paid bank	600		
1 November	Paid bank	720		
20X1:				
1 February	Paid bank	900		
30 June	Paid bank	840		
30 June	Accrual c/d $\$840 \times {}^2/_3$	560	SPL	3,320
		3,620		3,620

10.8 The correct answer is: $6,800.

GAS SUPPLIER ACCOUNT

	$			$
Balance b/fwd	200			
Bank $600 × 12	7,200	28 February	invoice	1,300
		31 May	invoice	1,400
		31 August	invoice	2,100
		30 November	invoice	2,000
		30 November	bal. c/d	600
	7,400			7,400

GAS ACCOUNT

		$			$
28 February	invoice	1,300			
31 May	invoice	1,400			
31 August	invoice	2,100			
30 November	invoice	2,000	30 November	SPL	6,800
		6,800			6,800

10.9 The correct answer is: $27,500.

$$\frac{5 \text{ months}}{12 \text{ months}} \times \$24{,}000 = \$10{,}000$$

$$\frac{7 \text{ months}}{12 \text{ months}} \times \$30{,}000 = \$17{,}500$$

Total rent: $10,000 + $17,500 = $27,500

10.10 The correct answer is: $316,200.

RENTAL INCOME ACCOUNT

	$		$
Opening rent owing	16,900	Opening rent in advance	24,600
Rent income (balancing figure)	316,200	Cash received	318,600
Closing rent in advance	28,400	Closing rent owing	18,300
	361,500		361,500

10.11 The correct answer is: Statement of profit or loss and other comprehensive income 40,000, Statement of financial position 10,000 prepayment.

Statement of profit or loss and other comprehensive income = $60,000 × 12/18 = $40,000.

Statement of financial position = $60,000 × 3/18 prepayment = $10,000.

10.12 The correct answer is: Profit for the year $15,000, Net asset position $265,000.

An accrual should be made for $10,000 ($30,000/3 months). The double entry to record the accrual in the accounts is:

DEBIT expenses (SPL)	$10,000	
CREDIT accruals (SOFP)		$10,000

This reduces profit from $25,000 to $15,000

An accrual is a liability and so will reduce the net asset position, from $275,000 to $265,000. Remember that net assets = assets – liabilities.

10.13 The correct answer is: A loss of $2,277.

	$
Original loss	(1,486)
Accrual	(1,625)
Prepayment	834
Revised loss	(2,277)

10.14 The correct answer is: Profit for the year ,$75,000, Net asset position $325,000.

The double entry to record the accrual in the accounts is:

DEBIT expenses (SPL)	$50,000	
CREDIT accruals (SOFP)		$50,000

This reduces profit from $125,000 to $75,000 and the net asset position from $375,000 to $325,000.

10.15 The correct answer is: $14,100.

This question is designed to test whether candidates understand prepayments and accruals. The best way to approach the question is to prepare a simple working for the heat and light expenses. Prepayment are those expenses that have already been paid but relate to a future accounting period and accruals are expenses that relate to the current accounting period but have not yet been paid for. Using all the information available in the question, the working would look like:

Heat and light expenses for the year ended 31 March 2017

	$
Gas prepayment 1 April 2016	1,000
Electricity accrual 1 April 2016	(500)
Gas paid during year	5,000
Electricity paid during year	7,800
Gas accrual 1 April 2017	2,000
Electricity prepayment 1 April 2017	(1,200)
Total expense	14,100

11 Receivables and payables

11.1 The correct answers are:

Payables represent money the business owes.	True	
Payables are an asset.		False
Receivables represent money owed to the business.	True	

Payables are a liability, so the second statement is false.

11.2 The correct answers is: $24,200.

	$
Closing allowance (400,000 – 38,000) × 10%	36,200
Opening allowance	50,000
Decrease in allowance	(13,800)
Irrecoverable debts written off	38,000
Statement of profit or loss charge	24,200

11.3 The correct answers is: $12,600.

	$
Irrecoverable debts written off	14,600
Reduction in allowance	(2,000)
	12,600

11.4 The correct answers is: $32,500.

	$
Irrecoverable debt written off	28,500
Increase in allowance ((868,500 – 28,500) × 5% – 38,000)	4,000
	32,500

11.5 The correct answer is: $281,000.

$146,000 + ($218,000 – $83,000) = $281,000

11.6 The correct answer is: DEBIT Cash, CREDIT Irrecoverable debts expense.

Because the debt has been previously written off, there is no receivable for which to offset the cash, therefore the double entry is DEBIT Cash, CREDIT Irrecoverable debts expense.

11.7 The correct answer is: Statement of profit or loss 7,550, Statement of financial position 808,450.

	$
Allowance required 5% × (864,000 – 13,000)	42,550
Existing allowance	(48,000)
Reduction in allowance	(5,450)
Irrecoverable debts written off	13,000
Statement of profit or loss charge	7,550

Net trade receivables = $864,000 – 13,000 – 42,550

= $808,450

11.8 The correct answer is: An increase in net profit.

A decrease in the allowance is written back to profit or loss.

11.9 The correct answer is: DEBIT Allowance for receivables, CREDIT Receivables.

The debt needs to be fully written out of the books. An allowance was already made, so the SPL has already been charged ie:

DEBIT Irrecoverable debts (SPL)	X	
CREDIT Allowance for receivables (SOFP)		X

Therefore you only need to clear the balances from Receivables and Allowances for receivables, which the third option will do.

11.10 The correct answer is: Net profit overstated by $16,000, receivables overstated by $16,000.

An increase in the allowance for receivables will reduce profits and receivables. Gross profit will not be affected since allowances for receivables are dealt with in the net profit section.

11.11 The correct answer is: $1,800 CREDIT.

		SPL charge
	$	$
Receivables allowance at 31.12.X1 (15% of $20,000)	1,000	
Receivables allowance at 1.1.X1	3,000	
Decrease in allowance		2,000
Irrecoverable debts written off		(1,000)
Debt recovered		800
Total credit to statement of profit or loss		1,800

11.12 The correct answer is: DEBIT Irrecoverable debts, CREDIT Allowance for receivables

When a business first establishes an allowance for receivables the full amount of the allowance should be debited to Irrecoverable debts (statement of profit or loss) and credited to Allowance for receivables (statement of financial position).

11.13 The correct answer is: $650.

		SPL charge
	$	$
Receivables allowance at year end	1,000	
Receivables allowance at beginning of year	850	
Increase in allowance		(150)
Irrecoverable debts written off		(500)
Total charge to statement of profit or loss		650

11.14 The correct answer is: An aged receivables analysis shows how long invoices for each customer have been outstanding. Receivables are included in the statement of financial position net of the receivables allowance.

An aged receivables analysis shows the outstanding balances owed by each customer analysed by how long they have been outstanding, usually 30, 60 and 90+ days. The receivables allowance is deducted from the receivables balance in the statement of financial position.

A credit limit is set by the credit control department of the business and is the maximum amount of credit each customer of that business can have. Credit limits are not applied to cash sales.

11.15 The correct answer is: $38,020.

The trade payables are due to be paid within 12 months, the overdraft is repayable on demand.

11.16 The correct answer is: Fewer irrecoverable debts.

Offering credit facilities will not reduce the level of irrecoverable debts.

11.17 The correct answer is: DEBIT Payables control account, CREDIT Discounts received (income).

11.18 The correct answer is: 4 only.

Statement 4 only is correct.

A payable is a person or institution to whom a business owes money. Statements 1 to 3 are examples of where money is owed to the business from others, so these are receivables. In the case of 2, if a company makes a loan or advance to an employee, this creates a receivable, being the repayment due from the employee.

Statement 4 is an example of where money is owed by the business to others, so this is a payable.

11.19 The correct answer is: 2 only

Statement 2 only is correct.

A payable is a person or institution to whom a business owes money eg, a supplier. The amount of money owed will be known exactly as it will have been billed or invoiced by the supplier. Therefore the liability of $500 for invoiced goods (2) is a payable.

The amount owed to the tax authorities (1) is an accrual rather than a payable. An accrual or accrued expense is an expense which is charged against the profit or loss for a particular period, with a corresponding liability, even though it has not yet been paid for. The amount and timing of money owed will not be known exactly as it will not yet have been billed or invoiced. However timing is virtually certain and a close estimate is usually known. This is recorded as the accrual.

The amount owed for the warranty claims (3) is a provision rather than a payable. A provision is a liability of uncertain timing or amount. The timing and/or amount are less certain than for an accrual – as is the estimate for the warranty claim.

11.20 The correct answer is: 3 and 6 only.

The reconciling items are 3 and 6.

The supplier statement reconciliation would read as follows with items 3 and 6 as reconciling items. All the other transactions appear both in the ledger and the supplier statement.

Balance per supplier's statement 31 March 20X1	520
Less reconciling items:	
Payment (30 March) not on statement (3)	(385)
Invoice (#533) on statement, not on payables ledger (6)	(35)
Balance per payables ledger 31 March 20X1	100

Invoice #533 would then need to be investigated with the supplier to ensure it is not an error on their part. Once it is established it is a valid invoice, the ledger should be corrected to record this invoice.

12 Provisions and contingencies

12.1 The correct answers are:

A company should disclose details of the change in carrying amount of a provision from the beginning to the end of the year.	True	
Contingent assets must be recognised in the financial statements in accordance with the prudence concept.		False
Contingent liabilities must be treated as actual liabilities and provided for if it is probable that they will arise.	True	

Contingent assets should not be recognised in the financial statements. However, they should be disclosed if it is probable that the economic benefits associated with the asset will flow to the entity. If it becomes probable that the a transfer of economic benefits associated with a contingent liability will happen, then the contingent liability is no longer contingent and a liability should be recognised in the financial statements.

12.2 The correct answer is: 1 and 4 only.

A possible transfer of economic benefits should be disclosed. Where transfer is probable a provision should be made.

12.3 The correct answer is: Disclose a provision of $50,000 and a contingent liability of $500,000.

As the claim is unlikely to succeed, the potential settlement of $500,000 should be disclosed as a contingent liability note. However, given that the legal costs of $50,000 must be paid whether the claim is successful or not, this amount should be provided for in the company's financial statements.

12.4 The correct answers are:

The company gives warranties on its products. The company's statistics show that about 5% of sales give rise to a warranty claim.	Create a provision		
The company has guaranteed the overdraft of another company. The likelihood of a liability arising under the guarantee is assessed as possible.		Disclosure note only	

A provision is required for the warranties sold, it should be calculated using the expected value approach. The guarantee is a contingent liability because it is possible that the company will have to pay out, if it was probable, then a provision would be required. If it was remote, no disclosure would be needed.

12.5 The correct answer is: All three statements are correct.

12.6 The correct answer is: A charge of $1,086.

The provision should be increased by $1,086, the double entry is therefore DEBIT Expenses, CREDIT Provision.

12.7 The correct answer is: A credit of $500.

Doggard Co needs to reduce the provision by $500 ie a credit to the statement of profit or loss.

12.8 The correct answer is: A provision is a liability of uncertain timing or amount.

A provision is a liability of uncertain timing or amount. A contingent liability is a possible obligation of uncertain timing or amount.

12.9 The correct answer is: A contingent liability.

The statement is the definition of a contingent liability.

12.10 The correct answer is: $3,000.

Montague should include a provision of $3,000 in his year-end financial statements as this is the best estimate of the amount he will probably have to pay out.

12.11 The correct answer is: $150,000.

Mobiles Co should provide on the basis of the expected cost. The expected cost would be calculated as (2.5% × 100,000 × $50) + (2.5% × 100,000 × $10) = $125,000 + $25,000 = $150,000.

12.12 The correct answer is: Each possible outcome weighted according to the probability of each outcome happening.

The expected value approach to calculating a provision takes each possible outcome (ie the amount of money that will need to be paid under each circumstance) and weights it according to the probability of that outcome happening. The total amount of each weighted value is the provision.

12.13 The correct answer is: $18,500.

	$'000
Provision required at 31.12.X1 = (0.05 × 150) + (0.20 × 25) + (0.75 × 60)	57.5
Provision b/f at 31.12.X0	64
Utilised during year	(25)
Increase required – charge to SPL	18.5
Provision c/f at 31.12.X1	57.5

13 Capital structure and finance costs

13.1 The correct answer is: $200,000.

Paid ordinary dividend only: 10m × 2c = $200,000. The dividend paid on the redeemable preference shares will be recognised in the financial statements as a finance cost. **Note.** The Ordinary shares are 10c shares, not $1 each. Therefore Alpha's share capital of $1,000,000 means it has $10 million shares in issue (at 10 cents each).

The proposed ordinary dividend will not be recognised in the financial statements, as this arose after the reporting date, and does not provide further evidence of conditions that existed at the reporting date. However, it should be disclosed in the notes to the financial statements.

Only the paid interim ordinary dividend will be recognised as a deduction from equity reserves in the statement of financial position.

13.2 The correct answer is: 1 only.

A rights issue will increase cash and therefore assets. Retained earnings remain the same and the share premium account will be increased.

13.3 The correct answer is:

	DEBIT $	*CREDIT* $
Bank	800,000	
Share capital		500,000
Share premium		300,000

Share capital will be credited with the nominal value of the shares – the balance goes to share premium.

13.4 The correct answer is: Ordinary share capital, 105,000, Share premium account 173,000.

	$
Ordinary shares at start of year	50,000
Add: bonus issue 50,000 × 50c	25,000
Add: new issue 60,000 × 50c	30,000
	105,000
Share premium at start of year	180,000
Less: bonus issue 50,000 × 50c	(25,000)
Add: new issue 60,000 × 30c	18,000
	173,000

13.5 The correct answer is: SPL $9,000, SOFP $3,000

$9,000 is payable (SPL), but only $6,000 has been paid (April and July).

13.6 The correct answers are:

Dividends paid on ordinary shares should be included in the statement of profit or loss and other comprehensive income.		**False**
Dividends paid on redeemable preference shares are treated in the same way as dividends paid on ordinary shares.		**False**
The statement of profit or loss and other comprehensive income shows the gain on revaluation of non-current assets for the period.	**True**	

Dividends paid on ordinary shares are included in the statement of changes in equity, not the statement of profit or loss and other comprehensive income. Dividends paid on redeemable preference shares are treated like interest on loans and are shown in the statement of profit or loss and other comprehensive income as a finance charge. The gain on revaluation of non-current assets is shown in the statement of profit or loss and other comprehensive income, as other comprehensive income.

13.7 The correct answer is: Ordinary share capital 225,000, Share premium account 250,000.

		$
Ordinary shares		
Opening balance		125,000
Rights issue	250,000 × 25c	62,500
Bonus issue	150,000 × 25c	37,500
		225,000
Share premium		
Opening balance		100,000
Rights issue	250,000 × 75c	187,500
Bonus issue	150,000 × 25c	(37,500)
		250,000

13.8 The correct answer is: $73,750.

		$
July – September	1,000,000 × 8% × 3/12	20,000
October – March	750,000 × 8% × 6/12	30,000
April – June	750,000 × 8% × 3/12	15,000
	500,000 × 7% × 3/12	8,750
		73,750

13.9 The correct answer is:

	DEBIT $	*CREDIT* $
Share capital account	25,000	
Share premium account		25,000

This is the transfer of the premium to the share premium account.

13.10 The correct answer is:

	DEBIT $	*CREDIT* $
Share premium	100,000	
Ordinary share capital		100,000

A bonus issue does not involve cash but can be financed from the share premium account.

13.11 The correct answer is: 3 only.

A bonus issue does not raise any funds, instead other reserves are capitalised and reclassified as share capital. A rights issue is an issue of shares for cash, the right to buy the shares are initially offered to existing shareholders. If the existing shareholders do not take up their right to buy the shares, then their shareholding will be diluted.

13.12 The correct answer is: Share capital $750,000, Share premium account $310,000

	$
Share capital @ 1.1.20X0	500,000
Issue on 1.4.20X0 (200,000 @ 50c)	100,000
Bonus issue (1.2m ÷ 4) @ 50c	150,000
Share capital as at 31.12.20X0	750,000
Share premium @ 1.1.20X0	300,000
1.4.20X0 200,000 shares @ (130c – 50c)	160,000
Bonus issue (as above)	(150,000)
	310,000

13.13 The correct answer is: Statement of changes in equity

13.14 The correct answer is: Yellow has received a 20% interim dividend.

From the information given we can see that Yellow has a credit against Dividends of $5,000 and a debit against Bank, which means that the company has received dividend income. The options for the correct answer are therefore narrowed down to the second or third option. We can now calculate the return from the investment in Blue as follows:

$5,000 Dividend/50,000 shares = 10c Dividend per share

10c Dividend/50c Share = 20% return

14 15 mark question: trial balance

14.1 The correct answer is:

Mr Yousef

Task 1

	$	DEBIT	CREDIT
Sales	138,078		O
Purchases	82,350	O	
Carriage	5,144	O	
Drawings	7,800	O	
Rent and insurance	6,622	O	
Postage and stationery	3,001	O	
Advertising	1,330	O	
Salaries and wages	26,420	O	
Irrecoverable debts	877	O	
Allowance for receivables	130		O
Receivables	12,120	O	
Payables	6,471		O
Cash on hand	177	O	
Cash at bank	1,002	O	
Inventory as at 1 June 20X5	11,927	O	
Equipment at cost	58,000	O	
Accumulated depreciation	19,000		O
Capital at 1 June 20X5	53,091		O

Task 2

Cost of sales is $82,937.

	$
Opening inventory	11,927
Purchases	82,350
Carriage inwards	2,211
Closing inventory	(13,551)
	82,937

Task 3

Profit for the year will be decreased by the rent accrual and increased by the insurance prepayment.

Task 4

Capital at 31 May 20X6 will be $51,179.

	$
Capital at 1 June 20X5	53,091
Profit for the year	5,888
Drawings	(7,800)
	51,179

Task 5

The carrying amount of equipment at 31 May 20X6 will be $30,300.

	$
Equipment at cost	58,000
Accumulated depreciation at 1 June 20X5	(19,000)
Depreciation for the year (58,000 × 15%)	(8,700)
	30,300

15 Control accounts

15.1 The correct answer is: $79,000.

Credit sales = $80,000* – $10,000 + $9,000 = $79,000.

*Total receipts of $85,000 include $5,000 in relation to cash sales. Therefore receipts in relation to credit sales are $80,000.

15.2 The correct answer is: The supplier has allowed you $150 cash discount which you had omitted to enter in your ledgers.

The first, third and fourth options would make the supplier's statement $150 **higher**.

15.3 The correct answer is: $38,100.

	$
Opening balance	34,500
Credit purchases	78,400
Discounts	(1,200)
Payments	(68,900)
Purchase returns	(4,700)
	38,100

15.4 The correct answer is: $7,700 DEBIT.

$8,500 – (2 × $400) = $7,700.

15.5 The correct answer is: 1, 2, and 5.

Sales and refunds are posted on the **debit** side, changes in the allowance for receivables do not appear in the control account.

15.6 The correct answer is: $129,200.

RECEIVABLES LEDGER CONTROL ACCOUNT

	$		$
Opening balance	180,000	Cash from credit customers	232,200
Credit sales	190,000	Irrecoverable debts written off	1,500
Cash refunds	3,300	Sales returns	8,000
		Contras	2,400
		Closing balance	129,200
	373,300		373,300

15.7 The correct answer is: $128,200.

PAYABLES LEDGER CONTROL ACCOUNT

	$		$
Purchases returns	41,200	Bal b/f	318,600
Cash paid	1,364,300	Purchases	1,268,600
Discounts received	8,200	Refunds	2,700
Contras	48,000		
Bal c/f	128,200		
	1,589,900		1,589,900

15.8 The correct answer is: 307,100.

RECEIVABLES LEDGER CONTROL ACCOUNT

	$		$
Opening balance	308,600	Cash received	148,600
Credit sales	154,200	Contra	4,600
Interest charged	2,400	Irrecoverable debts	4,900
		Closing balance	307,100
	465,200		465,200

15.9 The correct answer is: $561,550.

RECEIVABLES LEDGER CONTROL ACCOUNT

	$		$
Opening balance	614,000	Cash from customers	311,000
Credit sales	301,000	Irrecoverable debts written off	35,400
Interest charged on overdue accounts	1,600	Contras	8,650
		Closing balance	561,550
	916,600		916,600

15.10 The correct answer is:

	DEBIT $	*CREDIT* $
PQ Co		608
Sales		608
Bank	608	
PQ Co	608	

	DEBIT	*CREDIT*	$
Sales price			800
Less: 20% trade discount			120
Less: 5% settlement discount			32
Sale	PQ Co	Sales	608
Cash payment	Bank	PQ Co	608
			608

Goods are sold with a trade discount of 20% ($120) so this is deducted from the sales price. Therefore $640 ($800 – $120) is invoiced to the customer.

The invoice also offers a settlement discount of 5% of the invoiced amount ($32) for early payment. Although it is uncertain if the customer will take advantage of this, you expect that they will, and so the settlement discount must be reflected in the amount recognised as revenue when recording the sale. Therefore $608 ($640 – $32) is recorded in sales, with a corresponding amount for trade receivables.

Since the customer did pay the discounted amount of $608, this amount is debited to bank and credited to the trade receivables.

The second option represents a situation where the customer was not expected to take up the discount at the time of the sale (and so revenue was recorded at the full invoiced amount), and did not take up the discount when they paid.

The third option represents a situation where the customer was expected to take up the discount at the time of the sale (and so revenue was recorded at the discounted invoiced amount), but did not take up the discount when they paid (and so the discount not taken was credited to revenue).

The fourth option represents a situation where the customer was not expected to take up the discount at the time of the sale (and so revenue was recorded at the full invoiced amount), but did take up the discount when they paid (and so the discount taken was debited to revenue).

15.11 The correct answer is: A receivables ledger control account does not ensure the trial balance balances.

15.12 The correct answer is: Cash received from customers, sales returns, irrecoverable debts written off, contras against amounts due to suppliers in the accounts payable ledger.

15.13 The correct answer is: $295,420.

RECEIVABLES LEDGER CONTROL ACCOUNT

	$		$
Opening balance	318,650	Cash from customers	181,140
Credit sales	163,010	Irrecoverable debts written off	1,390
Interest on overdue accounts	280	Sales returns	3,990
		Closing balance	295,420
	481,940		481,940

15.14 The correct answer is: $130,585.

PAYABLES LEDGER CONTROL ACCOUNT

	$		$
Returns outwards	27,490	Balance b/f	142,320
Payments to payables	196,360	Credit purchases (183,800 × 1.175)	215,965
Discount received	1,430		
Contra	2,420		
Balance c/f	130,585		
	358,285		358,285
		Balance b/f	130,585

15.15 The correct answer is: $32,123.

Balance per ledger	$31,554	CREDIT
Discount	$53	DEBIT
Invoice	$622	CREDIT
Corrected balance	$32,123	

15.16 The correct answer is: $68,665.

	Control account $	*List of balances* $
Balance/total	68,566	68,538
Credit balance omitted	–	127
Undercasting of day book	99	–
	68,665	68,665

15.17 The correct answer is: As a current liability.

Trade payables are a current liability.

15.18 The correct answer is:

DEBIT receivables ledger control $4,900, CREDIT sales $4,900, DEBIT cash $2,850, DEBIT sales $150, CREDIT receivables ledger control $3,000.

Sales invoices:

Invoices amounting to $2,000 should be recorded net of the 5% settlement discount (ie, $1,900), since Y Ltd expects X to take the discount on these. The remaining $3,000 of invoices should be recorded at the full amount.

Therefore, sales = ($1,900 + $3,000) = $4,900, with a corresponding amount for receivables.

Payment received:

Y Ltd did not expect Z to take the settlement discount on invoices of $3,000, so these would have been originally recorded in sales and receivables at the full amount of $3,000.

However Customer Z has paid £2,850 against receivables of $3,000. The difference of $150 is debited to sales and credited to receivables, thereby accounting for the discount.

15.19 The correct answer is:

	DEBIT	*CREDIT*
	$	$
Trade receivables	1,000	
Sales		1,000
Bank	950	
Sales	50	

The invoice offers a settlement discount of 5% of the invoiced amount ($50) for early payment. Although it is uncertain if the customer will take advantage of this, you expect that they will not, therefore the full sales amount must be recognised as revenue when recording the sale, ie, $1,000.

As the customer did pay the discounted amount of $950, this amount is debited to bank, however this is against a receivable of $1,000, so the difference of $50 is debited to sales, to account for the fact that revenue has been reduced by the discount.

The first option represents a situation where the customer was expected to take up the discount at the time of the sale (and so revenue was recorded at the discounted invoiced amount), and took up the discount when they paid.

In the second option, the entry for the sale is correct. However, the entry for the payment is incorrect as the discount (which was not accounted for at the time of the sale) has still not been accounted for.

In the fourth option, the entry for the payment is correct. However, the entry for the sale is incorrect as it records the sale at the discounted amount, even though the customer was not expected to take the discount at the time of the sale.

15.20 The correct answer is: $517,500.

The receivables control account and the list of receivables should agree. The irrecoverable receivable has not been adjusted in the list of balances so will need to be taken into account in the reconciliation. The early settlement discount was not expected to be taken at the time the invoice was raised and therefore the sale and receivable would have been recorded at the gross amount in accordance with IFRS 15 *Revenue from Contracts with Customers*. The correct adjustment for this discount when taken would be to DEBIT Revenue $12,500 CREDIT Receivables control account $12,500. The total list of receivables would also need to be adjusted.

Reconciliation back to the receivables control account balance:

	$
Total list of receivables ledger balances	560,000
Irrecoverable debt write off	(30,000)
Settlement discounts	(12,500)
Adjusted receivables	517,500

ANSWERS

16 Bank reconciliations

16.1 The correct answer is: $657 overdrawn.

$(565)o/d – $92 dishonoured cheque = $(657) o/d

16.2 The correct answer is: $6,450 overdrawn.

	$
Balance b/d	5,675 o/d
Less duplicated standing order	(125)
Add dishonoured cheque (450 × 2)	900
	6,450 o/d

16.3 The correct answer is: $1,970.

	$
Opening bank balance	2,500
Payment ($1,000 – $200) × 90%	(720)
Receipt ($200 – $10)	190
Closing bank balance	1,970

16.4 The correct answer is: $880 overdrawn.

	$
Balance per bank statement	(800)
Unpresented cheque	(80)
Dishonoured cheque (affects cash book only)	–
	(880)

16.5 The correct answer is: $11,200 overdrawn.

Cash book	$	*Bank statement*	$
Balance	(8,970)	Balance b/f (bal fig)	(11,200)
Bank charges	(550)	Credit in error	(425)
		Unpresented cheques	(3,275)
		Outstanding deposits	5,380
	(9,520)		(9,520)

16.6 The correct answer is: $29,220 CREDIT.

	$
Bank statement	(36,840)
Deposits credited after date	51,240
Unpresented cheques	(43,620)
Balance per cash book (o/d)	(29,220)

16.7 The correct answers are: Cheque paid in, subsequently dishonoured, Bank charges.

Dishonoured cheques and bank charges must be entered in the cash book.

16.8 The correct answer is: 1, 5 and 6.

Bank charges, direct debits and dishonoured cheques will all be written into the cash book.

16.9 The correct answer is: $3,670 balance at bank.

	$
Overdraft	(3,860)
Unpresented cheques	(9,160)
	(13,020)
Outstanding lodgements	16,690
Cash at bank	3,670

16.10 The correct answer is: 2 and 4.

1 – The difference between the bank statement and the cash book is resolved by means of the reconciliation. 3 – Bank charges not entered in the cash book should be entered and the cash book balance corrected.

16.11 The correct answer is: $11,200 overdrawn.

Cash book	$	Bank statement	$
Balance	(8,970)	Balance	(11,200)
Bank charges	(550)	Credit in error	(425)
		Unpresented cheques	(3,275)
		Outstanding lodgements	5,380
	(9,520)		(9,520)

16.12 The correct answer is: $700 overdrawn.

The bank is overdrawn.

	$
Overdraft	(38,600)
Outstanding lodgements	41,200
	2,600
Unpresented cheques	(3,300)
Overdraft	(700)

16.13 The correct answer is: 1, 2, 5 and 6.

The other two items are part of the bank reconciliation.

16.14 The correct answer is: $19,900 overdrawn.

	$
Overdraft per bank statement	39,800
Less: deposits credited after date	(64,100)
Add: unpresented cheques	44,200
Overdraft per cash book	19,900

16.15 The correct answer is: Cash book entry 3, 5, Bank reconciliation 1, 2, 4.

17 Correction of errors

17.1 The correct answer is: Credit note issued to a customer of $400 has been debited to trade receivables.

The credit note should have been credited to trade receivables, so the effect is doubled.

17.2 The correct answer is:

	DEBIT $	CREDIT $
Sales returns	88	
Purchases returns	88	
Suspense account		176

Start by posting the adjustment in full:

	DEBIT $	CREDIT $
Sales returns	384	296
Purchases returns	384	296
Suspense account		176

17.3 The correct answer is: The returns outwards total of $3,591 was included in the trial balance as a debit balance.

Returns outwards are returns to suppliers, which should therefore reduce the purchases balance – ie it should be a credit balance.

The first option would result in credits being higher than debits in the trial balance. The second and third options would not cause an imbalance.

17.4 The correct answer is: A purchase of goods for $50 being omitted from the payables control account.

The second and third options would make the credit side $50 higher. The fourth option would have no effect.

17.5 The correct answer is: Plant and machinery purchased was debited to the purchases account.

This has debited a non-current asset to cost of sales which is an error of principle as it has broken the principles of accounting – ie that non-current assets should be capitalised and shown as assets on the statement of financial position.

17.6 The correct answer is: An error where one side of a transaction has been recorded in the wrong account, and that account is of the same class as the correct account.

A transaction has been posted to the wrong account, but not the wrong class of account.

17.7 The correct answer is: An error of original entry.

This is an error of original entry.

17.8 The correct answer is: $97,100.

	$
Draft net profit	83,600
Add: purchase price	18,000
Less: additional depreciation (18,000 × 25%)	(4,500)
Adjusted profit	97,100

17.9 The correct answer is: The trial balance being $10 higher on the credit side.

The cash book was credited with $210 reimbursement of petty cash. However, the nominal ledger was posted with only $200 of expenditure (debits). Therefore the credits are $10 higher than the debits.

17.10 The correct answer is: $14,600.

$10,200 + $3,000 + $1,400 = $14,600.

17.11 The correct answer is: Understatement of gross profit by $40,000 and understatement of net profit by $30,000.

Both errors will affect cost of sales and therefore gross profit, making a net effect of $40,000. Net profit will be further reduced by $10,000 missing from stationery expense.

17.12 The correct answer is: The debit side to be $96 more than the credit side.

Debits will exceed credits by 2 × $48 = $96.

17.13 The correct answer is:

Errors of principle	*Errors of transposition*
Will not be revealed	Will be revealed

Errors of principle, such as recording an asset expenditure transaction as expenditure on the statement of profit or loss, would not be revealed by a trial balance because it would not create an inequality between total debits and total credits. Transposition errors are errors where figures (digits) are written in the wrong order in either a credit or a debit entry. This would create an imbalance between credits and debits, and so the error would be indicated by extracting a trial balance.

17.14 The correct answer is: $62,000.

	DEBIT	CREDIT
	$	$
Non-current assets	85,000	
Receivables	7,000	
Trade payables		3,000
Bank loan		15,000
Allowance for depreciation, non-current assets		15,000
Inventory	4,000	
Accruals		1,000
Prepayments	2,000	
Bank overdraft		2,000
	98,000	36,000

17.15 The correct answer is: $46,000.

Debit balances	$	$
Purchases	160,000	
Non-current assets	120,000	
Receivables	33,000	
Other expenses	110,000	
Bank	18,000	
		441,000
Credit balances		
Payables	27,000	
Capital	66,000	
Sales	300,000	
Purchase returns	2,000	
		395,000
Bank loan (credit balance)		46,000

17.16 The correct answer is: Total assets (SOFP) $600,000, Profit for year $100,000.

$600,000 – $50,000 = $600,000. $150,000 – $50,000 = $100,000.

17.17 The correct answer is: Statement of financial position $560, Statement of profit or loss $3,320.

Statement of financial position $560, Statement of profit or loss $3,320.

ELECTRICITY ACCOUNT

		$		$
Balance b/fwd	300			
20X9:				
1 August	Paid bank	600		
1 November	Paid bank	720		
20Y0:				
1 February	Paid bank	900		
30 June	Paid bank	840		
30 June	Accrual c/d $840 × $^2/_3$	560	SPL	3,320
		3,620		3,620

17.18 The correct answer is: Item 1 Receivables ledger, Item 2 Receivables ledger.

This question tests whether candidates understand the nature of the errors and where the corrections need to be recorded.

Item 1 – there has been a transposition error recorded in the individual ledger, therefore the adjustment must be made in the receivables ledger.

Item 2 – This transaction is a cash sale, therefore it should not have been posted to individual receivables ledger and needs to be removed.

ANSWERS

18 Suspense accounts

18.1 The correct answer is: 1, 2, 3 and 4 only.

Error 5 will not cause a trial balance imbalance.

18.2 The correct answer is: $2,440 DEBIT.

SUSPENSE ACCOUNT

	$		$
Share capital	3,000	Opening balance	3,460
Motor vehicles	9,000	Plant asset (2,800 × 2)	5,600
		Petty cash (TB)	500
		Closing balance	2,440
	12,000		12,000

18.3 The correct answer is: $4,000 received for rent of part of the office has been correctly recorded in the cash book and debited to rent account.

This results in a debit to the suspense account therefore reducing the balance.

The first option results in a credit to the suspense account and the third and fourth options do not affect the suspense account at all.

18.4 The correct answer is: 2 and 3 only.

1 This entry has been correctly debited but to the wrong account – no effect on trial balance

4 Double entry has been carried out although the wrong way round – no effect on trial balance

18.5 The correct answer is: DEBIT $210.

SUSPENSE ACCOUNT

	$		$
Balance b/d	210	Gas bill[2] (420 – 240)	180
Interest[1]	70	Sales invoice[3] (2 × 50)	100
	280		280

[1] error of omission

[2] transposition error

[3] error of commission

18.6 The correct answer is:

	DEBIT	*CREDIT*
	$	$
Plant and machinery	25,000	
Suspense account		25,000

The $25,000 currently held in the Suspense account needs to be posted to Plant and machinery.

18.7 The correct answer is: $1,500 credit

Suspense account	$	
Opening balance	16,500	CREDIT
Discount received (credit discount received)	(5,100)	DEBIT
Transposition of cash received (credit RLCA)	(9,900)	DEBIT
Balance remaining	1,500	CREDIT

18.8 The correct answers are: $4,600 paid for motor van repairs was correctly treated in the cash book but was credited to motor vehicles asset account. Sales returns had been debited in error to the purchases returns account.

Only the errors in options one and three involve a suspense account entry to correct them. None of the other errors will cause a trial balance imbalance.

18.9 The correct answer is: Undercasting the purchases account by $100.

The first and second options will only affect the personal ledgers, the third will cause an incorrect double entry.

18.10 The correct answer is: Recording a purchase of $130 twice in the purchases account.

The first option would give a debit balance of $130, the third would have no effect and the fourth would not cause a trial balance imbalance.

18.11 The correct answer is: $840 DEBIT.

The initial step in correcting the error of commission would be to make a credit entry of $1,400 in the suspense account as follows:

DEBIT	Suspense account	$1,400	
CREDIT	Receivables control		$1,400

The receivables control account and the suspense account would appear as follows:

RECEIVABLES CONTROL ACCOUNT

	$		$
Discounts allowed incorrectly debited	700	Suspense A/c Error corrected	1,400
Balance c/d	700		
	1,400		1,400

SUSPENSE ACCOUNT

	$		$
Receivables Con A/c Error corrected	1,400	Balance b/f	560
		(Remaining) Balance c/d	840
	1,400		1,400

The remaining balance on the suspense account is $840.

18.12 The correct answer is: A $1,500 bank balance has been shown in the trial balance as an overdraft of $1,500.

The third option is an error of principle where M Co has incorrectly capitalised an expense by performing the following double entry:

DEBIT Plant and equipment	$3,000	
CREDIT Bank		$3,000

As an equal debit and credit entry has been performed there will be no impact on the suspense account. M Co can correct this error of principle by debiting equipment repairs and crediting plant and equipment.

The first option is an error of commission where M Co has completed the following double entry in error:

DEBIT Bank	$3,000	
CREDIT Payables control account		$3,000

The credit entry should have been recorded within the receivables control account. Again, this error will not impact the suspense account. M Co can fix the error by debiting payables control account and crediting receivables control account.

The second option is an error of omission where the account is omitted from the trial balance entirely. Interest received is a credit balance and for the trial balance to balance a suspense account on the credit side would be required, not the debit side.

The fourth option will impact the suspense account as a positive bank balance (debit) has incorrectly been recorded as an overdraft (credit) on the trial balance. This will result in debits being understated by $1,500 and credits being overstated by $1,500. The error will have resulted in a debit entry to the suspense account of $3,000 in order for the trial balance to balance.

Therefore the correct answer is the fourth option.

18.13 The correct answer is: $100,000 CREDIT.

To identify the amount that would have been recorded in the suspense account it would be useful to consider how the share issue would have been recorded in the financial statements in full.

On 1 January 20X7 the rights issue would have resulted in a further 80,000 shares being issued (400,000 ordinary shares × 1/5) and would generate cash of $120,000 (80,000 × $1.50). On this date the share issue should have been recorded as follows:

DEBIT Bank	$120,000	
CREDIT Share capital (80,000 × 25c)		$20,000
CREDIT Share premium (80,000 × (1.50 – 0.25)		$100,000

Therefore the answer is the fourth option as it is a credit to share premium that has been omitted from the financial statements.

19 15 mark questions: preparing basic financial statements

19.1 **Shuswap**

Task 1

The correct answer is:

Inventory should be credited with $140,000.

The sale was made after the year end but provides evidence that inventory was overvalued at the year end.

Task 2

There is $100,000 loss on disposal.

	$'000
Carrying amount	700
Proceeds (5,000,000 – (4,000,000 × $1.10))	(600)
Loss	100

The depreciation adjustment is $350,000 (1,400,000 × 25%).

Task 3

	DEBIT	*CREDIT*	*Neither DEBIT nor CREDIT*
Issued share capital		O	
Share premium		O	
Cash			O
Plant and equipment – cost			O
Plant and equipment – disposal account		O	
Suspense account	O		

Balances after the suspense account has been cleared will be:

Share capital $8,000,000 (6,000,000 + (4,000,000 × 50c))

Share premium $2,400,000 (4,000,000 × 60c)

Task 4

	DEBIT	CREDIT	Neither DEBIT nor CREDIT
Irrecoverable debts	O		
Depreciation adjustment (Task 2)		O	
Inventory adjustment (Task 1)	O		

19.2 **Malright**

Task 1

	On SFP	Not on SFP
Buildings at cost	O	
Buildings, accumulated depreciation, 1 November 20X6		O
Plant at cost	O	
Plant, accumulated depreciation, 1 November 20X6		O
Bank balance	O	
Revenue		O
Purchases		O
Inventory at 1 November 20X6		O
Cash	O	
Trade payables	O	
Trade receivables	O	
Administrative expenses		O
Allowance for receivables, at 1 November 20X6		O
Retained earnings at 1 November 20X6		O
$1 ordinary shares	O	
Share premium account	O	

Task 2

	DEBIT	CREDIT	Neither DEBIT nor CREDIT
Trade receivable			O
Administrative expenses	O		
Allowance for receivables		O	
Revenue			O

The amount included in the statement of profit or loss after the allowance is increased to 5% of trade receivables is $6,000. ((320,000 × 5%) – 10,000).

Task 3

	DEBIT	CREDIT	Neither DEBIT nor CREDIT
Administrative expenses			O
Cost of sales	O		
Buildings cost			O
Plant cost			O
Buildings accumulated depreciation		O	
Plant accumulated depreciation		O	

Depreciation charge for the year ended 31 October 20X7:

Buildings $37,000 (740,000 × 5%)

Plant $22,000 ((220,000 – 110,000) × 20%)

Task 4

Cost of sales for the year is $1,225,000

	$'000
Opening inventory	160
Purchases	1,140
Closing inventory	(75)
	1,225

Task 5

The double entry to post the year end adjustments for energy costs is:

	DEBIT	CREDIT
Accrual		O
Administrative expenses	O	

The amount to be posted within the year end adjustment double entry above is $10,000 (15,000 × 2/3).

19.3 **Tonson**

Task 1

	P/L	Not P/L
Inventory at 1 November 20X5		O
Administrative expenses	O	
Share premium account		O
Retained earnings at 1 November 20X5		O
Allowance for receivables at 1 November 20X5		O
Sales revenue	O	
Bank		O
Returns inward	O	
Trade payables		O
Loan note interest	O	
Trade receivables		O
Purchases	O	
7% loan notes		O
Irrecoverable debts	O	
$1 ordinary shares		O
Accumulated depreciation at 1 November 20X5		
Buildings		O
Motor Vehicles		O
Furniture and equipment		O
Land at cost		O
Buildings at cost		O
Motor vehicles at cost		O
Furniture and equipment at cost		O

Task 2

Carrying amount in the financial statements at 31 October 20X6

Land $740,000

Buildings $1,065,000 (1,500 – 360 – (1,500 × 5%))

Motor vehicles $128,000 (240 – 80 – ((240 – 80) × 20%))

Furniture and equipment $540,000 (1,200 – 420 – (1,200 × 20%))

Task 3

	DEBIT	CREDIT
Inventory valuation adjustment	O	
Administrative expenses relating to November 20X6		O
Increase in allowance for receivables	O	
Outstanding wages and salaries	O	

Task 4

The bonus issue will not affect Tonson's cash balance.

Balances following the bonus issue:

Share capital $1,980,000 (1,800 + 180)
Share premium $20,000 (200 – 180)

19.4 **Emma**

EMMA
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 20X2 (extract)

	$'000	
Cash flows from operating activities		
Net profit before interest and tax	410	
Adjustments for:		
Depreciation	90	Add
Loss on sale of non-current assets	13	Add
Profit on sale of non-current asset investments	(5)	Subtract
Increase in inventories	(48)	Subtract
Increase in receivables	(75)	Subtract
Increase in payables	8	Add
Income taxes paid	(190)	Subtract
Interest paid		Subtract
Cash flows from investing activities		
Purchase of intangible non-current assets	(50)	Subtract
Purchase of tangible non-current assets	(201)	Subtract
Receipts from sale of non-current assets	62	Add
Cash flows from financing activities		
Proceeds from issue of share capital	60	Add
Long-term loan	100	Add

Workings

1 *Depreciation charge*

	$'000	$'000
Depreciation at 31 December 20X2		340
Depreciation 31 December 20X1	290	
Depreciation on assets sold (85 – 45)	40	
		250
Charge for the year		90

2 *Tax paid*

INCOME TAX

	$'000		$'000
Tax paid	190	1.1.X2 balance b/d	240
31.12.X2 balance c/d	290	Statement of profit or loss	240
	480		480

3 *Purchase of tangible non-current assets*

TANGIBLE NON-CURRENT ASSETS

	$'000		$'000
1.1.X2 Balance b/d	595	Disposals	85
Revaluation (100 – 91)	9		
Purchases (bal fig)	201	31.12.X2 Balance c/d	720
	805		805

ANSWERS

19.5 **Sioux**

SIOUX
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 20X4

	$'000	
Net profit before tax	2,350	Before tax
Add: depreciation (W)	1,250	Add
Less: profit on disposal (500 – 350)	(150)	Subtract
Decrease in inventories	400	Add
Increase in receivables	(900)	Subtract
Increase in payables	500	Add
Tax paid	(600)	Subtract
Cash flows from investing activities		
Payments to acquire non-current assets (W)	(3,300)	Subtract
Proceeds from sale of non-current assets	500	Add
Cash flows from financing activities		
Proceeds from issue of loan notes (3,000 – 2,000)	1,000	Add
Dividends paid	(750)	Subtract
Net increase in cash	300	
Cash at 1 January 20X4	100	
Cash at 31 December 20X4	400	

Working

Non-current assets

NON-CURRENT ASSETS AT COST

	$		$
Opening balance	8,000	Disposal	800
Revaluation	500	Closing balance	11,000
Additions (balance figure)	3,300		
	11,800		11,800

NON-CURRENT ASSETS – ACCUMULATED DEPRECIATION

	$		$
Disposal (800 – 350)	450	Opening balance	4,800
Closing balance	5,600	Charge for year (balance figure)	1,250
	6,050		6,050

19.6 **Snowdrop**

SNOWDROP LIMITED
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MAY 20X5

	$'000	
Cash flows from operating activities		
Net profit before tax	1,032	Before
Adjustments for		
Depreciation	700	Add
Loss on disposal of non-current assts	20	Add
Increase in inventory	(80)	Subtract
Increase in receivables	(130)	Subtract
Increase in payables	85	Add
Income taxes paid (W1)	(145)	Subtract
Cash flow from investing activities		

	$'000	
Purchase of non-current assets (W2)	(2,800)	
Receipts from sales of tangible non-current assets	180	
Cash flows from financing activities		
Proceeds from issue of share capital	1,280	Add
Dividends paid	(270)	Subtract
Repayment of long term borrowing	(100)	Subtract
Net increase/(decrease) in cash and cash equivalents	(228)	
Cash and cash equivalents at the beginning of period	170	
Cash and cash equivalents at end of period	(58)	

Note. Dividends paid should be shown under financing activities.

Workings

1 *Tax paid*

TAXATION

	$'000		$'000
Tax paid (bal fig)	145	Balance b/fwd	145
Balance c/fwd	180	Statement of profit or loss	180
	325		325

2 *Payments for tangible non-current assets*

TANGIBLE NON-CURRENT ASSETS

	$'000		$'000
Balance b/fwd	2,700	Depreciation	700
Additions (bal fig)	2,800	Disposals (carrying amount)	200
		Balance c/fwd	4,600
	5,500		5,500

19.7 **Geofrost**

GEOFROST
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 OCTOBER 20X7

	$	
Cash flows from operating activities		
Net profit before tax	15,000	Before tax
Adjustments for		
Depreciation	4,658	Add
Profit on disposal of non-current assets (W1)	(720)	Subtract
Decrease in inventory	6,075	Add
Increase in receivables	(1,863)	Subtract
Increase in payables	3,198	Add
Tax paid (W2)	(4,090)	Subtract
Cash flows from investing activities		
Payments to acquire tangible non-current assets	(24,340)	Subtract
Proceeds from sale of non-current assets	2,694	Add
Cash flows from financing activities		
Proceeds from issue of share capital	1,869	Add

	$	
Repayment of long term borrowing	(2,300)	Subtract
Net increase in cash and cash equivalents	181	Increase
Cash and cash equivalents at the beginning of period	634	
Cash and cash equivalents at end of period	815	

Workings

1 *Profit on sale of tangible non-current asset*

	$'000
Sale proceeds	2,694
Net book value	1,974
Profit	720

2 *Tax paid*

TAXATION

	$'000		$'000
Tax paid (bal fig)	4,090	Balance b/f	2,760
Balance c/f	3,020	Statement of profit or loss	4,350
	7,110		7,110

20 Incomplete records

20.1 The correct answer is: $1,587,500.

	$
Opening inventory	386,200
Purchases	989,000
Closing inventory	(422,700)
Cost of sales	952,500

952,500 × 100/60 = 1,587,500

20.2 The correct answer is: Closing net assets plus drawings minus capital introduced minus opening net assets.

20.3 The correct answer is: $8,400.

Cost of sales = $114,000

Therefore sales should be = $114,000 × 100/60 = $190,000

Theft = $190,000 – 181 600 = $8,400

20.4 The correct answer is: $744,960.

TOTAL RECEIVABLES ACCOUNT

	$		$
Opening balance	130,000	Cash received	687,800
Sales (balancing figure)	744,960	Irrecoverable debts	4,160
		Contra	2,000
		Closing balance	181,000
	874,960		874,960

20.5 The correct answer is: $331,760.

TOTAL PAYABLES ACCOUNT

	$		$
Cash paid	302,800	Opening balance	60,000
Discounts received	2,960	Purchases (balancing figure)	331,760
Contra	2,000		
Closing balance	84,000		
	391,760		391,760

20.6 The correct answer is: $40,700.

Cost of sales = $281,250 × 2/3 = $187,500

Loss of inventory = $228,200 – 187,500 = $40,700

20.7 The correct answer is: $57,000.

	$
Opening inventory	318,000
Purchases	412,000
Closing inventory	(214,000)
	516,000
Notional cost of sales (612,000 × 75%)	(459,000)
Inventory lost	57,000

20.8 The correct answer is: $1,175,000.

	$'000
Profit for the year	1,175
Add back depreciation	100
	1,275
Add: issue of shares	1,000
Less: repayment of loan notes	(750)
Less: purchase of non current assets	(200)
	1,325
Less: increase in working capital	(575)
Increase in bank balance	750

20.9 The correct answer is: $38,930.

	$
Capital at 1 April 20X7	6,500
Add: profit (after drawings)	32,500
Less: sales tax element	(70)
Capital at 31 March 20X8	38,930

20.10 The correct answer is: $937,050.

PURCHASES CONTROL ACCOUNT

	$		$
Payments to suppliers	888,400	Opening balance	130,400
Discounts received	11,200	Goods taken	1,000
Closing balance	171,250	Refunds received	2,400
		Purchases (bal fig)	937,050
	1,070,850		1,070,850

ANSWERS

20.11 The correct answer is: $669,375.

Cost of sales

	$
Opening inventory	243,000
Purchases	595,400
Less: purchases returns	(41,200)
	797,200
Less: closing inventory	(261,700)
	535,500

Sales = 535,500 × 100/80 = $669,375

20.12 The correct answer is: $508,500.

Sales = 381,600 + 6,800 + 112,900 + 7,200 = $508,500

20.13 The correct answer is: $140,000.

Cost of sales: $17,000 + $91,000 – $24,000 = $84,000

Sales	100%
Cost of sales	60%
Gross profit	40%

Sales: $\frac{\$84,000}{60\%}$ = $140,000

20.14 The correct answer is: $32,640.

	$
Sales (100%)	64,800
Cost of sales (70%)	45,360
Gross profit (30%)	19,440
Opening inventory	28,400
Purchases	49,600
	78,000
Calculated closing inventory (bal fig)	(32,640)
Cost of sales	45,360
Calculated closing inventory	32,640
Actual closing inventory	–
Destroyed by fire	32,640

20.15 The correct answer is: $900,000.

	$
Cost of sales	
Opening inventory	38,000
Purchases	637,000
Less: closing inventory	(45,000)
	630,000

Sales 630,000 × 100/70 = $900,000

20.16 The correct answer is: $138,000.

Opening net assets	+	Profit	+	Capital introduced	–	Drawings	=	Closing net assets
210,000	+	Profit	+	100,000	–	48,000	=	400,000

Profit = $138,000

21 Company financial statements

21.1 The correct answer is: 2, 3 and 4.

The revaluation surplus is part of equity. Dividends paid on redeemable preference shares are treated like interest paid on loans, and are therefore accrued for as finance costs in the financial statements.

21.2 The correct answer are: Surplus on revaluation of properties, Issue of share capital.

Profit on disposal of properties will be included in profit in the statement of profit or loss and other comprehensive income. Equity dividends proposed after the reporting period are disclosed by note.

21.3 The correct answer is: Receivables and prepayments 22,240, Payables and accruals NIL

	$
Receivables and prepayments	
Insurance 9,000 × 8/12 prepayment	6,000
Loan (receivable)	12,000
Interest due 12,000 × 2% (receivable)	240
Rent due (receivable)	4,000
	22,240

21.4 The correct answer is: 1, 2, and 3.

All of these items must be disclosed, either on the face of the main financial statements or in the notes. Although dividends proposed are not included in the statement of changes in equity, they must still be disclosed in the notes.

21.5 The correct answers are:

In preparing a statement of cash flows, either the direct or the indirect method may be used. Both lead to the same figure for net cash from operating activities.	True	
Loan notes can be classified as current or non-current liabilities.	True	
Financial statements must disclose a company's total expense for depreciation, if material.	True	
A company must disclose, by note, details of all adjusting events allowed for in the financial statements.		False

Adjusting events after the reporting period should be adjusted for, not just disclosed.

21.6 The correct answers are: Dividends on equity shares paid during the period, Proceeds of an issue of ordinary shares.

The loss on sale of investments will have been recognised in the statement of profit or loss and other comprehensive income. Dividends proposed after the year end are disclosed in the notes, they are not recognised in the financial statements.

21.7 The correct answer is: Loan stock.

Loan stock is a non-current liability.

Share premium account is a statutory reserve.

Retained earnings is otherwise known as the revenue reserve.

Revaluation surplus is an unrealised reserve.

21.8 The correct answer is:

DEBIT Cash	$260,000	
CREDIT Ordinary share capital		$200,000
CREDIT Share premium account		$60,000

The total will be $260,000, of which $60,000 will be credited to share premium.

21.9 The correct answer is: 3 only.

A revaluation surplus arises when a non-current asset is revalued. Loan notes are not part of share capital.

21.10 The correct answer is: $22,500.

The under provision for the previous year of $2,500 plus the provision for the current year of $20,000 gives a charge to the statement of profit or loss of $22,500.

22 Disclosure notes

22.1 The correct answer is: To provide more detail for the users of financial statements about the information in the statement of financial position and statement of profit or loss and other comprehensive income.

Disclosure notes provide more detail about the information in the main financial statements.

22.2 The correct answer is: 2 and 3 only.

A reconciliation of the opening and closing carrying amounts is required by IAS 16 for tangible non-current assets and by IAS 38 for intangible assets.

22.3 The correct answer is: 2 and 3 only.

IAS 2 requires disclosure of the accounting policies adopted in measuring inventories, including the cost formula used, the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity and the carrying amount of inventories carried at net realisable value.

22.4 The correct answer is: 1, 2 and 3 only.

IAS 38 does not require the net realisable value of deferred development costs to be disclosed.

22.5 The correct answer is: Both 1 and 2.

Both statements are correct.

22.6 The correct answer is: Contingent liabilities.

These are the disclosure requirements given in IAS 37 for contingent liabilities.

22.7 The correct answer is: 2, 3 and 4 only.

IAS 16 does not require disclosure of the market value of all tangible non-current assets.

22.8 The correct answer is: 1 and 3 only.

Inventories must be valued at the lower of cost and net realisable value. The amount of any write-down in the period must be disclosed, and so too must the carrying amount of inventories classified by type and the cost of inventories recognised as an expense in the period. There is no requirement to disclose the original cost of inventories that have been written down in value.

22.9 The correct answer is: An estimate of the financial effect of the event, unless a reasonable estimate cannot be made.

IAS 10 requires disclosure of the nature of material non-adjusting events after the reporting period and either an estimate of the financial effect of the event or a statement that a reasonable estimate cannot be made.

23 Events after the reporting period

23.1 The correct answer is: All of them.

All of these events are indicative of conditions that existed at the reporting period.

23.2 The correct answers are: The bankruptcy of a major customer, with a substantial debt outstanding at the end of the reporting period. Sale for less than cost of some inventory held at the end of the reporting period.

The second and third options do not affect the company's position at the end of the reporting period.

23.3 The correct answer is: 1 and 2 only.

These affect valuation of receivables and inventory at the end of the reporting period.

23.4 The correct answer is: Issue of shares or loan notes, changes in foreign exchange rates, major purchases of non-current assets.

These events are adjusting if discovered between the reporting date and the date the financial statements are authorised for issue as they provide evidence about conditions that existed at the reporting date: insolvency of an account receivable which was outstanding at the end of the reporting period, discovery of fraud or error which shows that the financial statements were incorrect, sale of inventory which gives evidence about its value at the end of the reporting period.

23.5 The correct answer is: 2 and 4.

2 and 4 both affect the valuation of assets at the end of the reporting period.

23.6 The correct answer is:

Adjust	*Disclose*	*Do nothing*
3	1, 2	–

IAS 10 requires the financial statements to be adjusted for events that reflect conditions that existed at the reporting date. Only Event 3 is indicative of conditions at the reporting date – ie the recoverability of the receivable balance. Events 1 and 2 are non-adjusting events, however, they are material so they should be disclosed.

23.7 The correct answer is: None of them.

None of these events require adjustment in the financial statements.

23.8 The correct answer is: An event that occurs between the reporting date and the date on which the financial statements are authorised for issue that provides further evidence of conditions that existed at the reporting date.

An adjusting event after the reporting date is event that occurs between the reporting date and the date on which the financial statements are authorised for issue that provides further evidence of conditions that existed at the reporting date. The event must occur after the reporting period but before the date the financial statements are authorised for issue.

23.9 The correct answer is: The nature of the event and an estimate of the financial effect (or a statement that such an estimate cannot be made).

24 Statements of cash flows

24.1 The correct answer is: 2 and 5 only.

Only the proceeds of a share issue and dividends received involve the movement of cash.

24.2 The correct answer is: 2, 3 and 4.

Loss on sale of non-current assets should be added back to profit before interest and tax, not deducted.

24.3 The correct answer is: Addition to operating profit, 990,000.

	$
Add: depreciation charge	980,000
Less: profit on sale of assets	(40,000)
Less: increase in inventories	(130,000)
Add: decrease in receivables	100,000
Add: increase in payables	80,000
Addition to operating profit	990,000

24.4 The correct answer is: 1 and 4 only.

Depreciation should be added back as it is not a cash flow and proceeds of sale of non-current assets appears under 'investing' cash flows.

24.5 The correct answer is: None of them.

1 Proceeds from sale of premises appears under investing activities.

2 Dividends received appears under operating or investing activities.

3 A bonus issue of shares is not a cash flow.

24.6 The correct answer is: 3 only.

1 The direct and indirect methods will give the correct figure.

2 A rights issue of shares is a cash flow.

4 The profit on sale of a non-current asset appears as an adjustment to profit in order to reach net cash flow from operations.

24.7 The correct answers are: Depreciation charges should have been added, not deducted. Increase in payables should have been added, not deducted.

24.8 The correct answer is: 2 and 4.

Neither a proposed dividend nor a bonus issue of shares involve the movement of cash.

24.9 The correct answer is: Increase in payables, decrease in inventories, profit on sale of plant, depreciation, decrease in receivables.

Proceeds from sale of equipment are included in investing activities.

24.10 The correct answer is: $10,000 inflow.

		$'000
Cash flows from financing:		
Issue of share capital	(120 + 60) – (80 + 40)	60
Repayment of bank loan	(100 – 150)	(50)
		10

24.11 The correct answer is: 2 and 4.

Decrease in inventories should be added, decrease in payables should be deducted.

24.12 The correct answer is: 1 and 3 only.

The corrected extract is as follows:

	$'000
Net cash flow from operating activities	
Profit before tax	484
Depreciation charges	327
Profit on sale of property, plant and equipment	(35)
Increase in inventories	(74)
Decrease in trade and other receivables	41
Increase in trade payables	29
Cash generated from operations	772

24.13 The correct answer is: None of them.

Interest received and proceeds from the sale of property are cash flows from investing activities; taxation paid is a cash flow from operating activities.

24.14 The correct answer is: A statement of cash flows prepared using the direct method produces the same figure for net cash from operating activities as a statement produced by the indirect method.

The net cash flows from operating activities will be the same using the two methods.

24.15 The correct answer is: $204,000.

	$'000
Carrying amount of assets at beginning of the year	462
Increase in revaluation surplus during the year	50
Book value of assets disposed of (110 – 65)	(45)
Depreciation charge for the year	(38)
	429
Carrying amount of assets at end of the year	633
Purchases of property, plant and equipment during the year	204

24.16 The correct answer is:

Loss on disposal	*Proceeds from sale*
Add as an adjustment in the calculation of cash flows from operating activities	Include in cash flows from investing activities

A loss on disposal of a non-current asset is added back as an adjustment in the calculation of cash flows from operating activities (using the indirect method), and the cash received from the disposal is included within cash flows from investing activities

24.17 The correct answer is:

Cash flows from operating activities	$
Cash received from customers ($400 + $33,400 – $900)	32,900
Cash paid to suppliers ($1,000 + $18,500 – $2,550)	(16,950)
Cash paid to employees ($1,500 + $9,500 – $750)	(10,250)
Interest paid	(2,100)
Net cash flow from operating activities	3,600

24.18 The correct answer is: A business may make a profit but have negative cash flow.

24.19 The correct answer is: Jo is correct. A business that does not have cash available to fund operations is likely to fail.

24.20 The correct answer is: There is an opportunity to reclassify some cash outflows that might have been reported in the operating section as investing cash outflows.

24.21 The correct answer is: $729,000.

This question is focused around the cash actually received during the financial year ended 31 March 20X7. Therefore, we need to consider (i) the amount owed to the company at the beginning of the year that will be paid during the financial year ie the receivables at 1 April 20X6, (ii) the sales during the year, and (iii) the amounts owed to the company at the end of the year ie receivables at 31 March 20X7.

The calculation can be summarised as follows:

	$
Receivables at 1 April 20X6	163,000
Sales during the year	750,000
Total	913,000
Less receivables at 31 March 20X7	184,000
	729,000

25 15 mark questions: preparing simple consolidated financial statements

25.1 Swing and Cat

Task 1

	$	$'000
Fair value of consideration transferred		120
Plus fair value of non-controlling interest at acquisition		40
Less fair value of net assets acquired as represented by		
Ordinary share capital	100	
Retained earnings	50	
		(150)
Goodwill		10

Task 2

$10,000

	$
Profit on intra-group sale (100,000 – 80,000)	20,000
Unrealised profit (50% × 20,000)*	10,000

- 50% of the inventories from the intra-group sales remain in inventories at the year end, therefore the unrealised profit is 50% of the overall profit made on the intra-group sales. The rest of the profit from the intra-group sales is now realised as the inventories have been sold outside the group.

Task 3

Consolidated cost of sales is $3,410,000

	$'000
Swing	2,900
Cat	600
Intragroup purchases	(100)
Unrealised profit	10
	3,410

Task 4

The correct statements are:

Non-controlling interest describes shares in the subsidiary not held by the parent

20% of Cat's profit after tax will be allocated to the non-controlling interest

Task 5

	Swing	*Cat*
	$'000	$'000
Per question	400	200
Adjustment (unrealised profit (W2))	(10)	
Pre-acquisition retained earnings		(50)
		150
Group share of Cat (80% × 150)	120	
Group retained earnings	510	

25.2 **Black and Bury**

Task 1

$21,000,000

	$'000
Fair value of net assets acquired:	
Share capital	30,000
Retained earnings	2,000
Goodwill acquired	800
Less fair value of NCI	(11,800)
Consideration transferred	21,000

Task 2

The dividend due to Black from Bury will be eliminated on consolidation.

This is an intragroup item.

The dividend due to be paid by Black will be shown in current liabilities.

This is not intragroup, it is owed to third parties. It is not deducted from profit as it is a distribution, not an expense.

Task 3

The unrealised profit is $1,440,000 (12m × 40% × 30%)

This is posted: DEBIT Retained earnings/CREDIT Inventory

Task 4

DEBIT Payables/CREDIT Receivables

This removes the intragroup amount from payables and receivables

Task 5

Non-controlling interest in the consolidated SPL is $4,500,000 (15,000,000 × 30%)

Non-controlling interest in the consolidated SFP:

	$'000
Fair value at acquisition	11,800
Share of post-acquisition retained earnings ((10,280 – 2,000) × 30%)	2,484
Total	14,284

25.3 **Prestend**

Task 1

	$'000
Fair value of consideration transferred	3,345
Plus fair value of NCI at acquisition	1,415
Total A	1,930
Fair value of net assets acquired:	
Ordinary share capital	4,000
Retained earnings at acquisition	60
Total B	4,060

Formula for goodwill = A – 100%B

Task 2

Unrealised profit on intragroup sales = $20,000 (240,000 × 20/120 × 50%)

Task 3

The correct answers are:

Ownership of more than 50% of equity shares

Power to appoint or remove the majority of board members

Ownership of preference shares does not give control as they are usually non-voting. Significant influence is not the same as control.

Task 4

	Prestend	Northon	
	$'000	$'000	
Per question	525	200	
Adjustment for unrealised profit	(20)		Subtract
Pre-acquisition retained earnings		(60)	Subtract
Total Northon		140	
Group share of Northon (70% × 140)	98		
Group retained earnings	603		

25.4 **Liverton and Everpool**

Task 1

	$'000
Fair value of consideration transferred	3,500
Fair value of NCI at acquisition	1,000
Total	4,500
Fair value of net assets acquired	
Share capital	4,000
Retained earnings at acquisition	200
Total	4,200
Goodwill	300

Task 2

Unrealised profit: ((200,000 – 120,000) × 60%) = $48,000

Task 3

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 MAY 20X6

	$'000
Sales revenue (6,400 + 2,600 – 200)	8,800
Cost of sales (3,700 + 1,450 – 200 + 48)	(4,998)
Gross profit	3,802
Distribution costs (1,110 + 490)	(1,590)
Administration expenses (700 + 320)	(1,020)
Profit before tax	1,192
Tax (400 + 80)	(480)
Profit for the year	712
Profit attributable to	
Owners of the parent	647
Non-controlling interest (25% × 260)	65
	712

26 Consolidated financial statements

26.1 The correct answer is: $122,000.

	$	$
Fair value of consideration		270,000
Plus fair value of NCI at acquisition		42,000
Less net acquisition-date fair value of identifiable assets acquired and liabilities assumed:		
Share capital	100,000	
Retained earnings at acquisition	90,000	
		190,000
Goodwill in statement of financial position		122,000

26.2 The correct answer is: $49,000.

Non-controlling interest	$
Fair value of NCI at acquisition	42,000
Plus NCI's share of post-acq'n retained earnings (10% × (160 – 90))	7,000
NCI at reporting date	49,000

26.3 The correct answer is: $273,000.

	$
Alpha retained earnings	210,000
Group share post-acq'n ret'd earnings:	
Beta ((160,000 – 90,000) × 90%)	63,000
	273,000

26.4 The correct answer is: Iota Co and Kappa Co.

Iota is a subsidiary as Gamma has power to cast a majority of votes at meetings of the board of directors. Kappa is a subsidiary as Gamma owns >50% of the ordinary shares of Kappa, it doesn't make any difference that Kappa is based overseas or pays tax in that country. Zeta is not a subsidiary of Gamma because Gamma's investment in the non-voting preference shares will not give it the ability to control Zeta.

26.5 The correct answer is: $95,000.

	$	$
Fair value of consideration		280,000
Plus fair value of NCI at acquisition		65,000
Less net acquisition-date fair value of identifiable assets acquired and liabilities assumed:		
Share capital	140,000	
Share premium	50,000	
Retained earnings at acquisition	60,000	
		250,000
Goodwill		95,000

26.6 The correct answer is: $73,000.

Non-controlling interest	$
Fair value of NCI at acquisition	65,000
Plus NCI's share of post-acq'n retained earnings (20% × (100 – 60))	8,000
NCI at reporting date	73,000

26.7 The correct answer is: $590,000

	$'000
Fair value of net assets acquired:	
Ordinary shares	400
Retained earnings at 1 January 20X7	100
Retained earnings for 9 months to acquisition date (80 × 9/12)	60
	560
Add goodwill	30
	590

26.8 The correct answer is: 35% of the profit after tax of Deciduous should be added to Evergreen's consolidated profit before tax.

Deciduous is an associate of Evergreen. Under equity accounting, the Evergreen group's share of the profit after tax of Deciduous is added to the group profit before tax.

26.9 The correct answer is: $560,000.

	$
Mercedes Co retained earnings	450,000
Benz Co retained earnings	
Unrealised profit in closing inventory (50,000 × 25/125)	(10,000)
Consolidated retained earnings at 31 March 20X9	560,000

26.10 The correct answer is: $99,000.

	$	$
Fair value of consideration		300,000
Plus fair value of NCI at acquisition		75,000
Less net acquisition-date fair value of identifiable assets acquired and liabilities assumed:		
Share capital	100,000	
Retained earnings at acquisition	156,000	
Fair value adjustment at acquisition	20,000	
		276,000
Goodwill		99,000

26.11 The correct answer is: $627,000.

	$'000
Unrealised profit (30,000 × 25% × 40%)	3
Gross profit (330 + 300 – 3)	627

26.12 The correct answers are: Aye Co owns 25% of the ordinary share capital of Bee Co, which means that Bee Co is an associate of Aye Co. Cee Co can appoint 4 out of 6 directors to the board of Dee Co, which means that Cee Co has control over Dee Co.

An investor must have significant influence over the investee in order for the investee to be classified as an associate. If the investor holds 20% or more of the voting power of the entity, significant influence can be assumed (unless it can clearly be shown that this is not the case). Therefore the first option is true. For an investee to be classified as a subsidiary, the investor (the parent) must have control over the investee (the subsidiary). Control can be demonstrated if the investor has the power to appoint the majority of board members of the investee, so the second option is true. The third option is incorrect because the power to govern the financial and operating policies of Fef make Fef a subsidiary of Ear. Likewise, the fourth option is incorrect as the power to govern the financial and operating policies of Hay makes Hay a subsidiary of Gee.

26.13 The correct answer is: An amount is shown in the statement of financial position under 'investments' being the original cost paid for the investment, this amount does not change. Dividends received from Tangerine are recognised in the statement of profit or loss of Clementine Co.

Tangerine is an associate of Clementine, however because Clementine has no other investments in other companies, it will not produce consolidated financial statements. Under IAS 27, Tangerine can choose to account for the investment at cost, or the equity method. In this scenario, it has chosen to account for the investment at cost, therefore the investment will appear in the single company financial statements of Clementine as a simple investment. The statement of financial position will show an investment at cost and the statement of profit or loss will show dividends received from Tangerine. If Clementine instead did produce consolidated financial statements, Tangerine would have to be accounted for in the consolidated financial statements using the equity method.

26.14 The correct answer is: 1 and 3 only.

A parent may hold less than 50% of the share capital but more than 50% of the voting rights. Goodwill only appears in the consolidated statement of financial position. Consolidated financial statements present the substance of the relationship between parent and subsidiaries, rather than the legal form.

26.15 The correct answer is: Q Co and R Co only.

S is not a subsidiary as P's shareholdings in S do not give it the power to control S. R is a subsidiary as P has the right to appoint or remove the directors of R, and so control it.

26.16 The correct answer is: 3 only.

Investments in associates are accounted for using equity accounting. An investment is an associate if the investor has significant influence over the investee. Significant influence is presumed if the investor owns at least 20% of the voting equity of the investee. Therefore 2 is not an associate. 1 and 4 are subsidiaries as Company A investor has control over them.

26.17 The correct answer is: $620,000.

	$'000	$'000
Fair value of consideration (bal fig)		620
Plus fair value of NCI at acquisition		150
Less net acquisition-date fair value of identifiable assets acquired and liabilities assumed:		
Share capital	500	
Retained earnings at acquisition	150	
Revaluation surplus at acquisition	50	
		(700)
Goodwill		70

26.18 The correct answer is: $2,250,000.

$950 + $1,250 + $50 = $2,250,000

26.19 The correct answer is: Trade receivables $73,000, Trade payables $55,000.

The $30,000 owed by Seven Co to Six Co is included within the receivables of Six Co and the payables of Seven Co. These intra-group balances should be eliminated for the purpose of consolidation.

Trade receivables = $(64,000 + 39,000 – 30,000) = $73,000

Trade payables = $(37,000 + 48,000 – 30,000) = $55,000

The unrealised profit on closing inventory will be an adjustment to inventory on consolidation, and does not affect consolidated receivables and payables.

26.20 The correct answer is: $27,800

	$
Fair value of NCI at date of acquisition	25,000
NCI share of retained post-acquisition earnings: 20% × $(60,000 – 40,000)	4,000
	29,000
NCI share in unrealised profit: 20% × 50% × $12,000	(1,200)
Non-controlling interest at 31 December 20X4	27,800

26.21 The correct answer is: $668,000.

Retained post-acquisition earnings of Lava Co = 4/12 × $(336,000 – 264,000) = $24,000.

	$000
Volcano retained earnings	650
Parent company share of post-acquisition earnings: 75% × $24,000	18
Parent company's share of consolidated retained earnings at 31 Dec 20X3	668

26.22 The correct answer is: $110,500.

Post-acquisition earnings of Drum Co = 9/12 × $60,000 = $45,000.

	$
Tin Co profit for the year	70,000
Parent company share of post-acquisition profit of Drum Co: 90% × $45,000	40,500
Parent company's share of consolidated retained earnings at 31 Dec 20X3	110,500

26.23 The correct answer is: $144,800.

The unrealised profit in the closing inventory of Sand Co = 25% × 40% × $40,000 = $4,000.

The NCI share of this is 20% × $4,000 = $800.

	$	$
NCI share of profit of Sun Co: 20% × $35,000		7,000
Less: NCI share of unrealised profit		(800)
		6,200
Combined profits of Sand Co and Sun Co: (120,000 + 35,000)	155,000	
Less: Unrealised profit in closing inventory	(4,000)	
Total consolidated profit for the year		151,000
Attributable to the parent company		144,800

26.24 The correct answer is: $69 million.

	$'000
Shares (18m × 2/3 × $5.75)	69,000

26.25 The correct answer is: $1,999,000.

	X Co	*Y Co × 2/12*	*Adj*	*Group*
	$'000	$'000	$'000	$'000
Revenue	3,400	400	(10)	3,790
Cost of sales	1,500	300	(10 –1*)	1,791
				1,999

* Unrealised profit

		$
Sale price	125%	10,000
Cost price	100%	(8,000)
Gross profit	25%	2,000
Unrealised profit	(2,000 × 50%)	1,000

26.26 The correct answer is: Profit attributable to non-controlling interest decrease by $2,500, Profit attributable to WX decrease by $7,500.

Eliminate unrealised profit on goods in inventory of WX:

		$
Sale price	120%	60,000
Cost price	100%	(50,000)
Gross profit	20%	10,000

Unrealised profit attributable to NCI = $10,000 × 25% = $2,500

Unrealised profit attributable to WX = $10,000 × 75% = $7,500

26.27 The correct answer is: $12 million.

	$'000
Net profit of S	60,000
NCI share of profit of S (20%)	(12,000)

Because the sale was made from the parent, P to the subsidiary, S, there is no unrealised profit attributable to the non-controlling interest.

27 15 mark question: interpretation of financial statements

Binky and Smokey

Task 1

		Binky		*Smokey*
Gross profit %	$\frac{\text{Gross profit}}{\text{Sales}} \times 100$	$\frac{129}{284} \times 100$	= 45.4%	$\frac{154}{305} \times 100$ = 50.5%
Net profit %	$\frac{\text{Net profit}}{\text{Sales}} \times 100$	$\frac{61}{284} \times 100$	= 21.5%	$\frac{47}{305} \times 100$ = 15.4%
Asset turnover	$\frac{\text{Sales}}{\text{Capital employed}} \times 100$	$\frac{284}{258} \times 100$	= 110.1%	$\frac{305}{477} \times 100$ = 63.9%
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{201}{188}$	= 1.1:1	$\frac{383}{325}$ = 1.2:1
Quick ratio	$\frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$	$\frac{110}{188}$	= 0.6:1	$\frac{90}{325}$ = 0.3:1
Receivables collection period	$\frac{\text{Receivables}}{\text{Sales}} \times 365$	$\frac{46}{284} \times 365$	= 59.1 days	$\frac{75}{305} \times 365$ = 89.8 days

Task 2

Of the two companies Binky has the higher net profit percentage. This is due to lower expenses.

Both companies have low quick ratios. In Smokey's case this is because much of its working capital is tied up in inventory. This has given rise to liquidity problems.

Smokey needs to improve credit control.

The asset turnover ratio shows that Binky is making better use of its working capital than Smokey.

28 Interpretation of financial statements

28.1 The correct answer is: Making a rights issue of equity shares.

Issuing further loan notes and paying dividends will increase gearing. A bonus issue simply capitalises reserves, so has no effect.

28.2 The correct answer is: Understatement of the closing inventory at 31 December 20X1.

Understatement of the December 20X1 closing inventory will lead to understatement of December 20X2 opening inventory and therefore understatement of cost of sales.

28.3 The correct answer is: Selling inventory at a profit.

Profit will be an addition to owner's capital.

28.4 The correct answer is: 57 days.

Purchases = \$(32,500 – 6,000 + 3,800)

= \$30,300

$\therefore$ Accounts payable payment period = $\frac{4{,}750}{30{,}300} \times 365$ = 57 days

TOKEN		Question 28.5	Question 28.6	Question 28.7
		Gearing 13%	Quick ratio 1.75	Current ratio 2.56
16%				
20%				
24%				
2.88				
3.20				

28.5 Gearing = $\dfrac{\text{Total long term debt}}{\text{Total long term debt + shareholders equity}} = \dfrac{75}{75 + 500} = 13\%$

28.6 Quick ratio = $\dfrac{\text{Current assets – Inventory}}{\text{Current liabilities}} = \dfrac{205 - 65}{80} = 1.75$

28.7 Current ratio = $\dfrac{\text{Current assets}}{\text{Current liabilities}} = \dfrac{205}{80} = 2.56$

28.8 The correct answer is: Gearing.

To get back to the 'real' underlying figures, without the numbers being skewed by the requirements of International Financial Reporting Standards.

The gearing ratio is used to assess how much the company owes in relation to its size.

28.9 The correct answer is: 5%.

	%	$
Sales	100	2,400
Cost of sales	66 2/3	1,600
Gross profit	33 1/3	800
Expenses	28 1/3	680
Net profit	5	120

28.10 The correct answer is: Liquidity appears to be poorly-controlled as shown by the company's relatively high current ratio.

Current ratio is 2,900 : 1,100 = 2.6: 1 ie high compared to the industry norm.

28.11 The correct answer is: So that the significance of financial statements can be better understood through comparisons with historical performance and with other companies.

Analysis of financial statements is carried out so that the significance of the financial statements can be better understood. Comparisons through time and with other companies help to show how well the company is doing.

28.12

152	times

Interest cover = $\dfrac{\text{Profit before interest and tax}}{\text{Interest expense}}$

$\dfrac{\$47,000}{\$31,000} = 1.52$

The interest cover ratio calculates how many times a business can pay its interest expense out of profit for the year.

29 Mixed bank 1

29.1 The correct answer is: $126,000.

	$
Increase in net assets	88,000
Capital introduced	(50,000)
Drawings (68,000 + 20,000)	88,000
Profit for the year	126,000

29.2 The correct answer is:

		$
DEBIT	Cash	$1,100,000
CREDIT	Share capital	$250,000
CREDIT	Share premium	$850,000

29.3 The correct answer is: 1 and 2 only.

Closing inventory should be valued at the lower of cost and NRV as per IAS 2.

29.4 The correct answer is: Share capital 687,500, Share premium account 400,000.

	Share capital $	*Share premium* $
1 July 20X4	500,000	400,000
1 January 20X5 – bonus issue (250,000 × 50c)	125,000	(125,000)
1 April 20X5 – rights issue	62,500	125,000
	687,500	400,000

29.5 The correct answer is: $135,540.

RECEIVABLES LEDGER CONTROL ACCOUNT

	$		$
Opening balance	138,400	Cash received	78,420
Credit sales	80,660	Payables contra	1,000
Dishonoured cheques	850	Irrecoverable debts written off	4,950
		Closing balance	135,540
	219,910		219,910

29.6 The correct answer is: Debit side of cash book undercast by $10,000; $6,160 paid for rent correctly entered in the cash book but entered in the rent account as $1,610.

SUSPENSE ACCOUNT

	$		$
Opening balance	14,550	To cash account	10,000
		To rent account	4,550

29.7 The correct answers are: Repayment of long-term borrowing. Interest received.

A revaluation of a non-current asset and a bonus issue of shares are both non-cash transactions.

29.8 The correct answer is: $1,008,000.

	$
Opening inventory	138,600
Purchases	716,100
Closing inventory	(149,100)
Cost of sales	705,600

Sales = 705,600 × 100/70 = 1,008,000

29.9 The correct answer is: Statement of Profit or Loss $36,700, Statement of Financial Position Prepayment $9,500.

	SPL $	*SOFP* $
Prepaid insurance	8,200	
Payment January 20X5	38,000	
Prepayment July–Sept 20X5	(9,500)	9,500
	36,700	9,500

29.10 The correct answer is: 1, 2 and 3.

All three statements are correct.

29.11 The correct answer is: Beta has issued a credit note for $500 to Alpha which Alpha has not yet received.

29.12 The correct answer is: 2 and 3 only.

Research expenditure is never capitalised.

29.13 The correct answer is: 2 and 3.

1 and 4 provide information about conditions which existed at the reporting date and are therefore adjusting.

29.14 The correct answer is: $84,000.

RENT RECEIVED

	$		$
Arrears b/f	3,800	In advance b/f	2,400
Rent in advance	3,000	Cash received	83,700
Rental income	84,000	In arrears	4,700
	90,800		90,800

29.15 The correct answer is: $22,000.

	$
Allowance for receivables ((517,000 – 37,000) × 5%)	24,000
Previous allowance	(39,000)
Reduction	(15,000)
Debts written off	37,000
Charge to statement of profit or loss	22,000

29.16 The correct answer is: 2 and 3 only.

Attributable overheads should be included in finished goods inventories.

29.17 The correct answer is:

Proceeds of sale	*Profit on sale*
Cash inflow under investing activities	Deducted from profit in calculating cash flow from operating activities

The proceeds will appear under **investing activities** and any profit will be deducted under **operating activities**.

29.18 The correct answer is: All four items.

All four items will appear in the statement of changes in equity.

29.19 The correct answer is: $43,100 overdrawn.

	$
Balance per bank statement	(38,600)
Bank charges	200
Lodgements	14,700
Cheque payments	(27,800)
Cheque payment misposted	8,400
Balance per cash book	(43,100)

30 Mixed bank 2

30.1 The correct answer is: $64,200.

	$
Balance b/f ((280,000 – 14,000) × 20%)	53,200
Addition 1 April (48,000 × 20% × $\frac{9}{12}$)	7,200
Addition 1 Sept (36,000 × 20% × $\frac{4}{12}$)	2,400
	62,800
Sale (14,000 × 20% × $\frac{1}{2}$)	1,400
	64,200

30.2 The correct answer is: 2, 3 and 4.

Item 1 is wrong, as inventory should be valued at the **lower** of cost and net realisable value.

Items 2, 3 and 4 are all correct.

30.3 The correct answer is: Profit or Loss $27,500, Financial Position $5,000 in deferred income.

RENT RECEIVABLE

		$			$
31.1.X6	Statement of profit or loss	27,500	1.2.X5	Balance b/f ($\frac{2}{3}$ × $6,000)	4,000
			1.4.X5	Received	6,000
			1.7.X5	Received	7,500
			1.10.X5	Received	7,500
31.1. X6	Balance c/f ($\frac{2}{3}$ × $7,500)	5,000	1.1.X6	Received	7,500
		32,500			32,500

30.4 The correct answer is: 20%.

ROCE is defined as the profit on ordinary activities before interest and tax divided by capital employed = $300,000/$1.5m = 20%.

30.5 The correct answer is: 1 and 4 only.

Items 1 and 4 are adjusting events. Item 2 is a non-adjusting event but might be disclosed by way of note if material. Item 3 is a non-adjusting event that is disclosed by way of note.

30.6 The correct answer is: $100.

	$
Balance per Alta	3,980
Cheque not yet received	(270)
Goods returned	(180)
Contra entry	(3,200)
Revised balance per Alta	330
Balance per Ordan	(230)
Remaining difference	100

30.7 The correct answers are:

	DEBIT	*CREDIT*
	$	$
Sales returns	130	
Purchases returns	130	
Suspense account		260
Suspense account	18,000	
Plant and machinery		18,000

For returns, we need to debit the purchases returns account $130 to reverse the entry and debit the sales returns account $130 to record the entry correctly. The credit of $260 will be to suspense. So the second option is correct.

For machinery, we need to debit plant and machinery $18,000 and credit suspense $18,000. So the fourth option is correct.

30.8 The correct answer is: 3 and 4 only.

Item 1, as the plant register is not part of the double entry system, the adjustment does not go through the suspense account.

Item 2, the transaction has been completely omitted from the records.

Therefore only items 3 and 4 affect the suspense account.

30.9 The correct answer is: $625,240.

	$
Initial profit	630,000
Item (1) – increase in depreciation (4,800 – 480)	(4,320)
Item (2) – bank charges	(440)
Item (3) – no effect on P/L	–
Item (4) – no effect on P/L	–
Revised profit	625,240

30.10 The correct answer is: 1 and 2.

30.11 The correct answer is: 2 and 3.

30.12 The correct answer is: $31,500.

	$
Closing receivables	458,000
Irrecoverable debts w/off	(28,000)
	430,000
Allowance required (5% × 430,000)	21,500
Existing allowance	(18,000)
Increase required	3,500
Charge to statement of profit or loss (28,000 + 3,500)	31,500

30.13 The correct answer is: $325,200.

PLCA

	$		$
Cash paid to suppliers	988,400	Opening balance	384,600
Discounts received	12,600	Purchases	963,200
Purchases returns	17,400		
Contras	4,200		
Closing balance	325,200		
	1,347,800		1,347,800

30.14 The correct answer is:

DEBIT Drawings
CREDIT Purchases

We need to increase drawings (debit) and reduce purchases (credit). Therefore the first journal is the correct answer. Remember that we only adjust inventory at the year end.

30.15 The correct answer is: $1,080,000.

	$	$
Sales (balancing figure)		1,080,000
Opening inventory	77,000	
Purchases	763,000	
	840,000	
Closing inventory	84,000	
Cost of sales (70%)		756,000
Gross profit ($\frac{30}{70}$ × 756,000)		324,000

30.16 The correct answer is: 3 and 4.

Statements 3 and 4 are correct. Statement 1 is incorrect because land is not usually depreciated. Statement 2 is incorrect as the gain on revaluation for property accounted for in accordance with IAS 16 is shown in the statement of profit or loss and other comprehensive income, under 'other comprehensive income' or in the separate statement of other comprehensive income. (NB gains on property classified as investment property per IAS 40 are recognised in profit or loss, but this is beyond the scope of this syllabus).

30.17 The correct answer is: $33,630 overdrawn.

	$
Balance per bank (overdrawn)	(38,640)
Add outstanding lodgements	19,270
	(19,370)
Less unpresented cheques	(14,260)
Balance per cash book (overdrawn)	(33,630)

30.18 The correct answer is: $50,600.

48,000 + 400 + 2,200 = 50,600

30.19 The correct answer is:

	DEBIT $	*CREDIT* $
Statement of profit or loss (SPL)	180,000	
Inventory account		180,000
Inventory account	220,000	
Statement of profit or loss (SPL)		220,000

Opening inventory: debit statement of profit or loss, credit inventory account

Closing inventory: debit inventory account, credit statement of profit or loss

Remember that inventory is part of cost of sales, which is included in the statement of profit or loss.

30.20 The correct answer is: $1,450,000.

	$'000
Fair value of consideration	4,000
Plus fair value of NCI at acquisition	2,200
Less net acquisition-date fair value of identifiable assets acquired and liabilities assumed	(4,750)
Goodwill	1,450

31 Mixed bank 3

31.1 The correct answer is: $185,000.

	$
Sales (100%)	650,000
Cost of sales (70%)	455,000
Gross profit (30%)	195,000
Opening inventory	380,000
Purchases	480,000
	860,000
Closing inventory (bal. fig.)	(405,000)
Cost of sales	455,000
Calculated inventory	405,000
Actual inventory	220,000
Lost in fire	185,000

31.2 The correct answer is: 1 and 4 only.

Income from investments and dividends paid on redeemable preference shares are recognised in the statement of profit or loss.

31.3 The correct answer is: SPLOCI for the period nil, SOFP liability nil.

Dividends paid go through the SOCIE, not the statement of profit or loss and other comprehensive income. Also dividends declared after the end of the reporting period, are disclosed by way of note to the financial statements.

31.4 The correct answer is: Partridge Co, Turkey Co and Duck Co.

Goose Co has control over all three of these investments, and hence they are all subsidiaries.

31.5 The correct answer is: Trade receivables 766,000, Allowance for receivables 60,000, Net balance 706,000.

Trade receivables	= 838,000 – 72,000
	= 766,000
Allowance for receivables	= 60,000
Net balance	= 766,000 – 60,000
	= 706,000

31.6 The correct answers are: According to IAS 2 *Inventories*, average cost and FIFO (first in, first out) are both acceptable methods of arriving at the cost of inventories. It may be acceptable for inventories to be valued at selling price less estimated profit margin.

Overheads must be included in the value of finished goods. Inventories should be valued at the lower of cost and net realisable value, not replacement cost.

31.7 The correct answer is: 1 only.

Inventory is correctly recorded, so 2 and 4 are incorrect. Purchases are understated, so cost of sales are understated and so profit for 20X6 is overstated. Therefore 1 only is the correct answer.

31.8 The correct answer is: 1.26:1.

(Receivables 176,000)/(trade payables 61,000 + overdraft 79,000).

31.9 The correct answer is: All four items.

31.10 The correct answer is: Profit or Loss SPL 11,100, Financial position SOFP 9,000 prepayment (DEBIT).

INSURANCE

	$		$
Prepayment b/f (3/4 × 10,800)	8,100	SPL	11,100
		Prepayments c/f (3/4 × 12,000)	9,000
Paid	12,000		
	20,100		20,100

31.11 The correct answer is: 1 and 4.

Statements 2 and 3 are incorrect. A bounced cheque is credited to the cash book and bank errors do not go through the cash book at all.

31.12 The correct answer is: Share capital 210, Share premium 60.

SHARE CAPITAL

	$m		$m
		Bal b/f	100
		Bonus (1/2 × 100m)	50
Bal c/f	210	Rights (2/5 × 150m)	60
	210		210

SHARE PREMIUM

	$m		$m
Bonus	50	Bal b/f	80
Bal c/f	60	Rights	30
	110		110

31.13 The correct answer is: All three statements are correct.

31.14 The correct answer is: 1 only.

Items 2, 3 and 4 preserve double entry and so would not show up in a trial balance.

31.15 The correct answer is: $2,850,000.

	$'000
Fair value of consideration transferred	8,000
Plus fair value of NCI at acquisition ($1.20 × 3,000,000)	3,600
Less net acquisition-date fair value of identifiable assets acquired and liabilities assumed	(8,750)
Goodwill	2,850

31.16 The correct answer is: 1 and 3.

	$
Opening inventory	40,000
Purchases	60,000
	100,000
Closing inventory	(50,000)
Cost of sales	50,000
This implies sales of	100,000 (50,000 × 2)

So either 1 is correct or 3 is correct.

31.17 The correct answer is: $828,700.

RENT RECEIVED

	$		$
Arrears b/f	4,800	Prepayments b/f	134,600
		Cash received	834,600
Profit or Loss	828,700		
Prepayments c/f	144,400	Arrears c/f	8,700
	977,900		977,900

31.18 The correct answer is: $282,830.

RECEIVABLES LEDGER CONTROL ACCOUNT

	$		$
Opening balance	284,680	Cash received	179,790
Credit sales	189,120	Irrecoverable debts written off	5,460
		Sales returns	4,920
		Contras	800
		Closing balance	282,830
	473,800		473,800

31.19 The correct answer is: $150,000.

	$
Carrying amount at 1 August 20X0	200,000
Less depreciation	(20,000)
	180,000
Proceeds	25,000
Loss	5,000
Carrying amount of asset sold	(30,000)
Therefore carrying amount	150,000

32 Mixed bank 4

32.1 The correct answer is:

	DEBIT $	*CREDIT* $
Sales	1,500,000	
Share capital		1,000,000
Share premium		500,000

Share capital (1m × $1) = 1,000,000

Share premium (1m × 50c) = 500,000

32.2 The correct answer is: Decrease current ratio and decrease quick ratio.

The correct answer is decrease current ratio and decrease quick ratio. Proposed dividends are not accrued for, so the only impact on the financial statements is to decrease cash.

32.3 The correct answer is: $858,600.

RENTAL INCOME

	$		$
Arrears b/f	42,300	Prepayments b/f	102,600
Profit or Loss	858,600	Received	838,600
Prepayments c/f	88,700	Arrears c/f	48,400
	989,600		989,600

32.4 The correct answer is:

	DEBIT $	CREDIT $
Sales returns	2,800	
Purchases returns		2,800

Correction of error: sales returns incorrectly debited to purchases returns account

The first and second journals have their entries reversed and the fourth journal should not include the suspense account at all.

32.5 The correct answer is: Probable loss Accrued, Probable gain Disclosed.

Per IAS 37 provide for probable losses of known amount and for which there is a constructive obligation, disclose possible losses, ignore remote ones.

32.6 The correct answer is:

SPLOCI $		SOFP $
136,000	Prepayment	12,000

RENT PAID

	$		$
Prepayment b/f (1/12 × 120,000)	10,000		
Paid – 1/1	30,000	SPL	136,000
– ¼	36,000		
– 1/7	36,000		
– 1/10	36,000	Prepayments c/f (1/3 × 36,000)	12,000
	148,000		148,000

32.7 The correct answer is: $16,000.

	$	$
Trade receivables	863,000	
Irrecoverable debts w/off	(23,000)	
	840,000	
Closing allowance for receivables (5% × 840,000)		42,000
Opening allowance		49,000
Reduction		(7,000)

Charge = 23,000 – 7,000
= 16,000

32.8 The correct answer is: Share capital 2,000,000, Share premium 1,800,000.

SHARE CAPITAL

	$m		$m
		Bal b/f	1.0
		Share issue (note 1)	0.5
Bal c/f	2.0	Bonus (note 2)	0.5
	2.0		2.0

SHARE PREMIUM

	$m		$m
Bonus (note 2)	0.5	Bal b/f	1.4
Bal c/f	1.8	Share issue (note 1)	0.9
	2.3		2.3

Notes

1 Share issues of 1,000,000 shares raises $1,400,000. Shares are 50c each, so share capital is $500,000 and share premium $900,000.

2 Share capital is $1.5m or 3m shares. Therefore the bonus issue is 1m shares.

32.9 The correct answer is: 2, 3 and 4 only.

Inventory should be valued at the lower of cost and net realisable value, so Statement 1 is incorrect.

32.10 The correct answer is: $192,600.

	$
Held all year ((960,000 – 84,000) × 20%)	175,200
Addition (48,000 × 20% × ½)	4,800
Disposal (84,000 × 20% × ¾)	12,600
	192,600

32.11 The correct answers are: The debit side of the wages account had been undercast. Sales returns had been credited to the purchases returns account.

The first and fourth options involve completed double entry and so do not go through the suspense account.

32.12 The correct answer is:

	DEBIT	*CREDIT*
	$	$
Drawings	2,000	
Purchases		2,000

Debit drawings and credit the cost to purchases.

32.13 The correct answer is: $58,000.

Cost	+	Profit	=	Selling price
100		25		125

PUP = (25/125 × 15,000) × 2/3 = $2,000

Inventories = $40,000 + $20,000 – $2,000 = $58,000

32.14 The correct answer is:

Statement of profit or loss and other comprehensive income	*Statement of changes in equity*
Tax on profit and profit for the period	Profit for the period

Tax is separately disclosed in the statement of profit or loss and other comprehensive income only, while profit for the period is shown in the statement of profit or loss and other comprehensive income and in the statement of changes in equity.

32.15 The correct answer is: When the asset is expected to decrease in value less in later years than in the early years of its life.

The reducing balance method charges more depreciation in earlier years.

32.16 The correct answer is: 3 and 4.

A decrease in receivables should be added and so should an increase in payables. Therefore 3 and 4 are correct.

32.17 The correct answer is: $47,429.

	$	$
Balance per P Johnson		46,747
Add: Whitchurch Co invoice, previously omitted from ledger	267	
Rectofon Co balance, previously omitted from list	2,435	
		3,102
		49,449
Less: Error on posting of Bury Inc's credit note to ledger	20	
P Fox & Son (Swindon) Co's balance included twice	2,000	
		2,020
Revised balance per receivables ledger		47,429

33 Mixed bank 5

33.1 The correct answer is: $1,700.

Closing inventory $1,700.

Purchases Units	Sales Units	Balance Units	Inventory value $	Unit cost $
10		10	3,000	300
12			3,000	250
		22	6,000	
	8		(2,400)	
		14	3,600	
6			1,200	200
		20	4,800	
	12		(3,100)*	
		8	1,700	

* 2 @ $300 + 10 @ $250 = $3,100

33.2 The correct answer is: The IFRS Advisory Council.

33.3 The correct answer is: $622 DEBIT.

SUSPENSE ACCOUNT

	$		$
Cash	1,512	Bal b/f	759
		Receivables	131
		Bal c/f	622
	1,512		1,512

33.4 The correct answer is: The total of the sales daybook was miscast by $200.

The sales daybook has been totalled incorrectly so the incorrect total has been posted to the control account. Each individual transaction has been posted to the individual accounts so when the two are compared there will be a difference of $200.

33.5 The correct answer is: $1,123 CREDIT.

	$
Receivables allowance at 30.11.X8 (598,600 × 2%)	11,972
Opening allowance at 1.12.X7	(12,460)
Reduction in allowance (credit to statement of profit or loss)	(488)

Total credit to statement of profit or loss = 488 + 635 = $1,123

33.6 The correct answer is: $1,000 increase.

	$
Rent accrual (4/12 × $12,000)	(4,000)
Insurance prepayment (10/12 × $6,000)	5,000
Net increase in profit	1,000

33.7 The correct answer is: $(1,245,000).

	$
Non-current assets at 1 December 20X7	2,500,000
Depreciation charge for the year	(75,000)
Non-current asset disposed of (carrying amount)	(120,000)
Revaluation of non-current assets	500,000
	2,805,000
Non-current assets at 30 November 20X8	4,200,000
Therefore non-current assets acquired during the year	(1,395,000)
Sales proceeds from disposal of non-current asset	150,000
To be included in 'net cash flows from investing activities'	(1,245,000)

NON-CURRENT ASSETS

	$'000		$'000
Bal b/f	2,500	Depreciation	75
Revaluation	500	Disposal	120
Additions (bal fig)	1,395	Bal c/f	4,200
	4,395		4,395

33.8 The correct answer is: 2 and 3 only.

A transposition error in the sales day book will not cause a difference between the SLCA and the receivables ledger as the total of the SDB is posted to the SLCA and the individual balances in the SDB to the receivables ledger, therefore the same error will be posted to both the SLCA and the receivables ledger.

33.9 The correct answer is: $2,700.

Make sure you read the dates carefully as some of the goods are returned after 31 May and we are only concerned with sales returns at that date, which is the goods with a list price of $3,000. The value of the original sale is after the trade discount of 10%, so the actual amount invoiced for those goods is $2,700 ($3,000 × 90%).

33.10 The correct answer is: 1 and 3 only.

Only Statement 2 is correct. Development expenditure should be capitalised in accordance with IAS 38, however, research expenditure should be written off to the statement of profit or loss as incurred. Goodwill arising in a business combination should be capitalised as a non-current asset in the statement of financial position.

33.11 The correct answer is: None of the statements.

All of the suggestions are flawed. LIFO is not permitted under IAS 2. Provisions cannot be created unless a constructive obligation exists, the amount can be reliably estimated and the likelihood of having to pay out cash is probable – none of these conditions are met, therefore a provision cannot be made. Development expenditure must be amortised over its useful life.

33.12 The correct answer is: 3 only.

Journal entries 1 and 2 should both be reversed.

33.13 The correct answer is: 1, 3 and 4 only.

Carriage outwards is a distribution expense.

33.14 The correct answer is: $665,000.

	Frog $'000	*Toad* $'000
Per question	650	160
Pre-acquisition retained earnings		(145)*
		15
Post-acquisition retained earnings of Toad	15	
Group retained earnings	665	

* 100 + (60/12 × 9)

33.15 The correct answer is: $15,000.

	$
Profit before tax	36,000
Dividend	(21,000)
Added to retained earnings	15,000

33.16 The correct answer is: A decrease in working capital.

It reduces receivables.

33.17 The correct answer is: $2,185.

Prepayment b/f $60 (2/3 × 90) + $2,145 – prepayment c/f $60 – accrual b/f $80 + accrual c/f $120 = $2,185.

33.18 The correct answer is: 1, 3 and 5.

In Option 2, receivables and drawings are debits but discount received is a credit. In Option 4, capital and trade payables are credits but operating expenses are debits.

33.19 The correct answer is: $205,000.

Profit = Drawings + Increase in net assets – Capital introduced

= $77,000 + $173,000 – $45,000

= $205,000

33.20 The correct answer is: $130 loss.

Capital = Assets – Liabilities

$50 + $100 + profit for the year = $90 – $70

$150 + profit for the year = $20

Therefore, the profit for the year is in fact a *loss* of $130.

34 Mixed bank 6

34.1 The correct answer is: X owes $1,250 to Y.

34.2 The correct answer is: $47,429.

RECEIVABLES LEDGER CONTROL

	$		$
Balance b/d	50,241	Returns inwards	41,226
Sales	472,185	Irrecoverable debts written off	4,586
Cheques dishonoured	626	Cheques received	429,811
		Balance c/d	47,429
	523,052		523,052

34.3 The correct answer is: $2,098 DEBIT.

CASH BOOK

	$		$
20X3		*20X3*	
31 May Balance b/d	873	31 May Bank charges	630
Error $(936 – 693)	243	Trade journals	52
Balance c/d	2,098	Insurance	360
		Business rates	2,172
	3,214		3,214
		1 May Balance b/d	2,098

34.4 The correct answer is: $87 loss.

	$
Carrying amount: 9,000 × 0.7 × 0.7 × 0.7	3,087
Proceeds of sale	(3,000)
Loss on disposal	87

34.5 The correct answer is: The cost of non-current assets is spread over the accounting periods which benefit from their use.

Depreciation is an application of the accruals principle.

34.6 The correct answer is: $107,500.

Original annual depreciation = $(160,000 – 40,000)/8 years = $15,000 per year.

The change in the estimated life of the asset is made on 31 December 20X3, and this means that the change should be applied for the year ending 31 December 20X3.

		$
Cost		160,000
Accumulated depreciation to 31 December 20X2	(2 years × $15,000)	30,000
Carrying amount at 1 January 20X3		130,000
Residual value		40,000
Remaining depreciable amount as at 1 January 20X3		90,000

Remaining life from 1 January 20X3 = 4 years

Annual depreciation = $90,000/4 years = $22,500.

Net book value (carrying amount at 31 December 20X3 =

$130,000 – $22,500 = $107,500.

34.7 The correct answer is: Purchases returns of $200 were debited to the sales returns account.

$200 debit which should have been credited – correction will bring trial balance into agreement.

34.8 The correct answer is: Revenue.

IAS 1 requires revenue to be disclosed on the face of the statement of profit or loss and other comprehensive income. It does not specify that a company must disclose profit before tax or gross profit on the face of the statement of profit or loss and other comprehensive income, however, most companies choose to do this. Dividends are disclosed in the statement of changes in equity if they are paid or are declared before the period end.

34.9 The correct answer is: $58,440 credit.

($73,680) + 102,480 – 87,240 = (58,440) $58,440 overdrawn

34.10 The correct answer is: None of the items.

1, 2 and 3 are all incorrect.

34.11 The correct answer is: 1, 2 and 5.

Cash received from customers, irrecoverable debts written off, and credits for goods returned by customers are credits to the sales ledger control account.

34.12 The correct answer is: $1,587,500.

$952,500 × 100/60 = $1,587,500

34.13 The correct answer is: $15,400.

	$
Theoretical gross profit ($130,000 × 30%)	39,000
Actual gross profit ($130,000 – $49,800 – $88,600 + $32,000)	23,600
Shortfall – missing inventory	15,400

34.14 The correct answer is: $2,640.

	$	$
Sales		240,000
Purchases	134,025	
∴ Drawings	(2,640)	
Inventory adjustment	(11,385)	
Cost of sales (50% × 240,000)		120,000
		120,000

34.15 The correct answer is: 1 and 4 only.

Incorrect answers: Goods purchased for cash – current assets remain the same, Payables paid out of an overdraft – current liabilities remain the same

34.16 The correct answer is: Sales $450,000, Cost of sales $214,000.

PUP = 50,000 × 25/125 × 40% = $4,000

	Lexus group $'000
Revenue (350 + 150 – 50*)	450
Cost of sales (200 + 60 – 50* + 4)	214

* to remove intragroup sales

34.17 The correct answer is: Share capital $120,000, Share premium account $227,000.

Share capital 75,000 + 15,000 + 30,000 =	120,000
Share premium 200,000 + 57,000 – 30,000 =	227,000
(Remember shares are 25c)	

34.18 The correct answer is: Decrease in trade receivables, increase in trade payables, loss on sale of non-current assets.

35 Mixed bank 7

35.1 The correct answer is: $7,000.

PLANT AND EQUIPMENT (CARRYING AMOUNT)

	$'000		$'000
b/d	155	Depreciation charge in year	25
Purchases of P+E	10	∴ Carrying amount of sale	15
		c/d	125
	165		165

		$'000
So,	Carrying amount	15
	Proceeds	(7)
	Loss	8

35.2 The correct answer is: $500,000.

(2c + 3c) × 10,000,000. The final ordinary dividend is declared before the year end and so is accrued for. The preference dividend is classified as a finance cost.

35.3 The correct answer is: 1 only.

Working capital is increased as the company will receive cash for the share issue. Share premium is not reduced as it is not a bonus issue of shares, it will probably increase as the shares will probably be issued at a premium.

35.4 The correct answer is: 2, 3 and 4.

A revaluation surplus will be presented as part of equity, not current liabilities.

35.5 The correct answer is: 3 only.

In Statement 1 both sides of the double entry posting from the cash book would be incorrect but equal in value, so this would not cause a trial balance imbalance. In Statement 2, both expenses and non-current assets are debit balances in the trial balance, so posting to the wrong account in this case would not cause a trial balance imbalance.

35.6 The correct answer is: SPLOCI for the period nil, SOFP liability nil.

The dividends actually paid will go through the statement of changes in equity. The final proposed dividend of $120,000 is disclosed in the notes to the statement of financial position.

35.7 The correct answer is: None of the statements is correct.

Deferred development expenditure should be amortised over its useful life. If the conditions in IAS 38 are met, development expenditure must be capitalised. Trade investments are not intangible assets, they should be reported under non-current assets: investments in the SOFP.

35.8 The correct answer is:

RENT

	$		$
Bal b/f (rent in arrears)	4,800	Bal b/f (rent in advance)	134,600
SPL	828,700	Bank (bal. fig.)	834,600
Bal c/f (rent in advance)	144,400	Bal c/f (rent in arrears)	8,700
	977,900		977,900

35.9 The correct answer is: Buying shares as an investment.

The first, second and third options are all income items reflected in the statement of profit or loss and other comprehensive income. In contrast option four is reflected in the statement of financial position.

35.10 The correct answer is: Expenditure on heat and light.

Options one, three and four are all asset items reflected in the statement of financial position.

35.11 The correct answer is: $128,200.

PAYABLES LEDGER CONTROL ACCOUNT

	$		$
Cash paid to suppliers	1,364,300	Opening balance	318,600
Discounts received	8,200	Purchases	1,268,600
Purchases returns	41,200	Refunds received from suppliers	2,700
Contras	48,000		
Closing balance	128,200		
	1,589,900		1,589,900

35.12 The correct answer is: DEBIT rent $500, CREDIT accruals $500.

We need to increase the rent expenses (debit) and set up a liability to pay this amount (credit accruals).

35.13 The correct answer is: The cake shop has a higher level of wastage of inventory than the electrical store.

Wastage of inventory means that cost of sales is high relative to revenue.

35.14 The correct answer is: $1.5m.

Sales: current assets = 5:1

Therefore current assets ($30m/5) = $6m

Current ratio = 2:1

Therefore current liabilities ($6m/2) = $3m

Acid test ratio = 1.5:1

Therefore current assets – inventory ($3m × 1.5) = $4.5m

Hence, Inventory ($6m – $4.5m) = $1.5m

35.15 The correct answer is: All three statements are correct.

35.16 The correct answer is: $183,300.

485,000 + 48,600 + 18,100 – 368,400

35.17 The correct answer is: $28,600 debit.

= 60,000 + ((1,232,000 – 60,000) × 5%) – 90,000

35.18 The correct answer is: To test the accuracy of the double entry bookkeeping records.

Although we may use a trial balance as a step in preparing management or financial statements, the main reason is the first option.

Mock exam 1

Foundations in Accountancy Financial Accounting (FA)

Mock Exam 1 (Specimen Exam)

Questions	
Time allowed	2 hours
This exam is divided into two sections: Section A – ALL 35 questions are compulsory and MUST be attempted Section B – BOTH questions are compulsory and MUST be attempted	

DO NOT OPEN THIS EXAM UNTIL YOU ARE READY TO START UNDER EXAMINATION CONDITIONS

SECTION A – ALL 35 questions are compulsory and MUST be attempted

1 Which of the following calculates a sole trader's net profit for a period?

- ○ Closing net assets + drawings – capital introduced – opening net assets
- ○ Closing net assets – drawings + capital introduced – opening net assets
- ○ Closing net assets – drawings – capital introduced – opening net assets
- ○ Closing net assets + drawings + capital introduced – opening net assets

(2 marks)

2 Which of the following explains the imprest system of operating petty cash?

- ○ Weekly expenditure cannot exceed a set amount.
- ○ The exact amount of expenditure is reimbursed at intervals to maintain a fixed float.
- ○ All expenditure out of the petty cash must be properly authorised.
- ○ Regular equal amounts of cash are transferred into petty cash at intervals.

(2 marks)

3 Which of the following statements are TRUE of limited liability companies?

1 The company's exposure to debts and liability is limited.

2 Financial statements must be produced.

3 A company continues to exist regardless of the identity of its owners.

- ○ 1 and 2 only
- ○ 1 and 3 only
- ○ 2 and 3 only
- ○ 1, 2 and 3

(2 marks)

4 Annie is a sole trader who does not keep full accounting records. The following details relate to her transactions with credit customers and suppliers for the year ended 30 June 20X6:

	$
Trade receivables, 1 July 20X5	130,000
Trade payables, 1 July 20X5	60,000
Cash received from customers	686,400
Cash paid to suppliers	302,800
Discounts received	2,960
Contra between payables and receivables ledgers	2,000
Trade receivables, 30 June 20X6	181,000
Trade payables, 30 June 20X6	84,000

What figure should appear for purchases in Annie's statement of profit or loss for the year ended 30 June 20X6?

$ ______

(2 marks)

5 Which **TWO** of the following errors would cause the total of the debit column and the total of the credit column of a trial balance not to agree?

☐ A transposition error was made when entering a sales invoice into the sales day book.

☐ A cheque received from a customer was credited to cash and correctly recognised in receivables.

☐ A purchase of non-current assets was omitted from the accounting records.

☐ Rent received was included in the trial balance as a debit balance. **(2 marks)**

---

6 At 31 December 20X5 the following require inclusion in a company's financial statements:

1 On 1 January 20X5 the company made a loan of $12,000 to an employee, repayable on 1 January 20X6, charging interest at 2% per year. On the due date she repaid the loan and paid the whole of the interest due on the loan to that date.

2 The company paid an annual insurance premium of $9,000 in 20X5, covering the year ending 31 August 20X6.

3 In January 20X6 the company received rent from a tenant of $4,000 covering the six months to 31 December 20X5.

For these items, what total figures should be included in the company's statement of financial position as at 31 December 20X5?

○ Current assets $10,000 Current liabilities $12,240

○ Current assets $22,240 Current liabilities $nil

○ Current assets $10,240 Current liabilities $nil

○ Current assets $16,240 Current liabilities $6,000 **(2 marks)**

---

7 A company's statement of profit or loss for the year ended 31 December 20X5 showed a net profit of $83,600. It was later found that $18,000 paid for the purchase of a motor van had been debited to the motor expenses account. It is the company's policy to depreciate motor vans at 25% per year on the straight line basis, with a full year's charge in the year of acquisition.

What would the net profit be after adjusting for this error?

$	

(2 marks)

---

8 Xena has the following working capital ratios:

	20X9	*20X8*
Current ratio	1.2:1	1.5:1
Receivables days	75 days	50 days
Payables days	30 days	45 days
Inventory turnover	42 days	35 days

Which of the following statements is **CORRECT**?

○ Xena's liquidity and working capital has improved in 20X9.

○ Xena is receiving cash from customers more quickly in 20X9 than in 20X8.

○ Xena is suffering from a worsening liquidity position in 20X9.

○ Xena is taking longer to pay suppliers in 20X9. **(2 marks)**

---

9 Identify, by selecting the correct boxes in the table below, whether the following statements are true or false.

A statement of cash flows prepared using the direct method produces a different figure to net cash from operating activities from that produced if the indirect method is used.	True	False
Rights issues of shares do not feature in a statement of cash flows.	True	False
A surplus on revaluation of a non-current asset will not appear as an item in a statement of cash flows.	True	False
A profit on the sale of a non-current asset will appear as an item under cash flows from investing activities in the statement of cash flows.	True	False

(2 marks)

10 A company receives rent from a large number of properties. The total received in the year ended 30 April 20X6 was $481,200.

The following were the amounts of rent in advance and in arrears at 30 April 20X5 and 20X6:

	30 April 20X5	*30 April 20X6*
	$	$
Rent received in advance	28,700	31,200
Rent in arrears (all subsequently received)	21,200	18,400

What amount of rental income should appear in the company's statement of profit or loss for the year ended 30 April 20X6?

○ $486,500

○ $460,900

○ $501,500

○ $475,900

(2 marks)

11 Which TWO of the following are differences between sole traders and limited liability companies?

☐ A sole trader's financial statements are private; a company's financial statements are sent to shareholders and may be publicly filed.

☐ Only companies that have capital invested into the business.

☐ A sole trader is fully and personally liable for any losses that the business might make.

☐ Revaluations can be carried out in the financial statements of a company, but not in the financial statements of a sole trader.

(2 marks)

12 Which of the following statements is **TRUE**?

- ○ The interpretation of an entity's financial statements using ratios is only useful for potential investors.
- ○ Ratios based on historical data can predict the future performance of an entity.
- ○ The analysis of financial statements using ratios provides useful information when compared with previous performance or industry averages.
- ○ An entity's management will not assess an entity's performance using financial ratios.

(2 marks)

---

13 A company's motor vehicles (at cost) account at 30 June 20X6 is as follows:

MOTOR VEHICLES (AT COST)

	$		$
Balance b/f	35,800	Disposal	12,000
Additions	12,950	Balance c/f	36,750
	48,750		48,750

What opening balance should be included in the following period's trial balance for Motor vehicles (at cost) at 1 July 20X6?

- ○ $36,750 DEBIT
- ○ $48,750 DEBIT
- ○ $36,750 CREDIT
- ○ $48,750 CREDIT

(2 marks)

---

14 Which **TWO** of the following items must be disclosed in the note to the financial statements for intangible assets?

- ☐ The useful lives of intangible assets capitalised in the financial statements
- ☐ A description of the development projects that have been undertaken during the period
- ☐ A list of all intangible assets purchased or developed in the period
- ☐ Impairment losses written off intangible assets during the period

(2 marks)

---

15 Which of the following statements are **CORRECT**?

1 Capitalised development expenditure must be amortised over a period not exceeding five years.

2 Capitalised development costs are shown in the statement of financial position under the heading of non-current assets.

3 If certain criteria are met, research expenditure must be recognised as an intangible asset.

- ○ 2 only
- ○ 2 and 3
- ○ 1 only
- ○ 1 and 3

(2 marks)

---

16 The following transactions relate to Rashid's electricity expense ledger account for the year ended 30 June 20X9:

	$
Prepayment brought forward	550
Cash paid	5,400
Accrual carried forward	650

What amount should be charged to the statement of profit or loss in the year ended 30 June 20X9 for electricity?

○ $6,600

○ $5,400

○ $5,500

○ $5,300 **(2 marks)**

17 At 30 June 20X5 a company's allowance for receivables was $39,000. At 30 June 20X6 trade receivables totalled $517,000. It was decided to write off debts totalling $37,000. The receivables allowance was to be adjusted to an amount equivalent to 5% of the trade receivables based on past events.

What figure should appear in the statement of profit or loss for the year ended 30 June 20X6 for these items?

$	

(2 marks)

18 The total of the list of balances in Valley's payables ledger was $438,900 at 30 June 20X6. This balance did not agree with Valley's payables ledger control account balance. The following errors were discovered:

1 A contra entry of $980 was recorded in the payables ledger control account, but not in the payables ledger.

2 The total of the purchase returns daybook was undercast by $1,000.

3 An invoice for $4,344 was posted to the supplier's account as $4,434.

What amount should Valley report in its statement of financial position as accounts payable at 30 June 20X6?

○ $436,830

○ $438,010

○ $439,790

○ $437,830 **(2 marks)**

19 According to IAS 2 *Inventories*, which **TWO** of the following costs should be included in valuing the inventories of a manufacturing company?

☐ Carriage inwards

☐ Carriage outwards

☐ Depreciation of factory plant

☐ General administrative overheads **(2 marks)**

20 Prisha has not kept accurate accounting records during the financial year. She had opening inventory of $6,700 and purchased goods costing $84,000 during the year. At the year end she had $5,400 left in inventory. All sales are made at a mark up on cost of 20%.

What is Prisha's gross profit for the year?

$	

(2 marks)

---

21 At 31 December 20X4 a company's capital structure was as follows:

	$
Ordinary share capital (500,000 shares of 25c each)	125,000
Share premium account	100,000

In the year ended 31 December 20X5 the company made a rights issue of one share for every two held at $1 per share and this was taken up in full. Later in the year the company made a bonus issue of one share for every five held, using the share premium account for the purpose.

What was the company's capital structure at 31 December 20X5?

	Ordinary share capital	*Share premium account*
○	$450,000	$25,000
○	$225,000	$250,000
○	$225,000	$325,000
○	$212,500	$262,500

(2 marks)

---

22 Which of the following should appear in a company's statement of changes in equity?

1 Total comprehensive income for the year

2 Amortisation of capitalised development costs

3 Surplus on revaluation of non-current assets

○ 1, 2 and 3

○ 2 and 3 only

○ 1 and 3 only

○ 1 and 2 only

(2 marks)

---

23 The plant and machinery account (at cost) of a business for the year ended 31 December 20X5 was as follows:

PLANT AND MACHINERY (AT COST)

20X5	$	20X5	$
1 Jan Balance b/f	240,000	31 Mar Transfer to disposal account	60,000
30 Jun Cash purchase of plant	160,000	31 Dec Balance c/f	340,000
	400,000		400,000

The company's policy is to charge depreciation at 20% per year on the straight line basis, with proportionate depreciation in the years of purchase and disposal.

What should be the depreciation charge for the year ended 31 December 20X5?

- ○ $68,000
- ○ $64,000
- ○ $61,000
- ○ $55,000

(2 marks)

---

24 The following extracts are from Hassan's financial statements:

	$
Profit before interest and tax	10,200
Interest	(1,600)
Tax	(3,300)
Profit after tax	5,300
Share capital	20,000
Reserves	15,600
	35,600
Loan liability	6,900
	42,500

What is Hassan's return on capital employed?

$	

(2 marks)

---

25 Identify, by selecting the relevant boxes in the table below, whether each of the following statements about sales tax is true or false.

Sales tax is an expense to the ultimate consumer of the goods purchased.	True	False
Sales tax is recorded as income in the accounts of the entity selling the goods.	True	False

(2 marks)

26 Q's trial balance failed to agree and a suspense account was opened for the difference. Q does not keep receivables and payables control accounts. The following errors were found in Q's accounting records:

1 In recording an issue of shares at par, cash received of $333,000 was credited to the ordinary share capital account as $330,000.

2 Cash of $2,800 paid for plant repairs was correctly accounted for in the cash book but was credited to the plant asset account.

3 The petty cash book balance of $500 had been omitted from the trial balance.

4 A cheque for $78,400 paid for the purchase of a motor car was debited to the motor vehicles account as $87,400.

Which of the errors will require an entry to the suspense account to correct them?

○ 1, 2 and 4 only

○ 1, 2, 3 and 4

○ 1 and 4 only

○ 2 and 3 only **(2 marks)**

---

27 Prior to the financial year end of 31 July 20X9, Cannon Co has received a claim of $100,000 from a customer for providing poor quality goods which have damaged the customer's plant and equipment. Cannon Co's lawyers have stated that there is a 20% chance that Cannon will successfully defend the claim.

Which of the following is the correct accounting treatment for the claim in the financial statements for the year ended 31 July 20X9?

○ Cannon should neither provide for nor disclose the claim.

○ Cannon should disclose a contingent liability of $100,000.

○ Cannon should provide for the expected cost of the claim of $100,000.

○ Cannon should provide for an expected cost of $20,000. **(2 marks)**

---

28 Gareth, a sales tax registered trader purchased a computer for use in his business. The invoice for the computer showed the following costs related to the purchase:

	$
Computer	890
Additional memory	95
Delivery	10
Installation	20
Maintenance (one year)	25
	1,040
Sales tax (17.5%)	182
Total	1,222

How much should Gareth capitalise as a non-current asset in relation to the purchase?

$ ______ **(2 marks)**

---

29 The following bank reconciliation statement has been prepared by a trainee accountant:

	$
Overdraft per bank statement	3,860
Less: Unpresented cheques	9,160
	5,300
Add: Outstanding lodgements	16,690
Cash at bank	21,990

What should be the correct balance per the cash book?

○ $21,990 balance at bank as stated

○ $3,670 balance at bank

○ $11,390 balance at bank

○ $3,670 overdrawn **(2 marks)**

---

30 The IASB's *Conceptual Framework* identifies characteristics which make financial information faithfully represent what it purports to represent.

Which TWO of the following are examples of those qualitative characteristics?

☐ Accruals

☐ Completeness

☐ Going concern

☐ Neutrality **(2 marks)**

---

31 The following control account has been prepared by a trainee accountant:

RECEIVABLES LEDGER CONTROL ACCOUNT

	$		$
Opening balance	308,600	Cash	148,600
Credit sales	154,200	Interest charged on overdue accounts	2,400
Cash sales	88,100	Irrecoverable debts	4,900
Contras against credit balances in payables ledger	4,600	Allowance for receivables	2,800
		Closing balance	396,800
	555,500		555,500

What should the closing balance be when all the errors made in preparing the receivables ledger control account have been corrected?

○ $395,200

○ $304,300

○ $309,500

○ $307,100 **(2 marks)**

---

32 Identify, by selecting the relevant boxes in the table below, whether the following material events, which occurred after the reporting date and before the financial statements are approved, adjusting events.

A valuation of property providing evidence of impairment in value at the reporting date	Yes	No
Sale of inventory held at the reporting date for less than cost	Yes	No
Discovery of fraud or error affecting the financial statements	Yes	No
The insolvency of a customer with a debt owing at the reporting date which is still outstanding	Yes	No

(2 marks)

---

33 A company values its inventory using the FIFO method. At 1 May 20X5 the company had 700 engines in inventory, valued at $190 each. During the year ended 30 April 20X6 the following transactions took place:

20X5

1 July	Purchased 500 engines at $220 each
1 November	Sold 400 engines for $160,000

20X6

1 February	Purchased 300 engines at $230 each
15 April	Sold 250 engines for $125,000

What is the value of the company's closing inventory of engines at 30 April 20X6?

- ○ $188,500
- ○ $195,500
- ○ $166,000
- ○ $106,000

(2 marks)

---

34 Amy is a sole trader and had assets of $569,400 and liabilities of $412,840 on 1 January 20X8. During the year ended 31 December 20X8 she paid $65,000 capital into the business and she paid herself wages of $800 per month.

At 31 December 20X8, Amy had assets of $614,130 and liabilities of $369,770.

What is Amy's profit for the year ended 31 December 20X8?

$	

(2 marks)

---

35 Bumbly Co extracted the trial balance for the year ended 31 December 20X7. The total of the debits exceeded the credits by $300.

Which of the following could explain the imbalance?

- ○ Sales of $300 were omitted from the sales day book.
- ○ Returns inward of $150 were extracted to the debit column of the trial balance.
- ○ Discounts received of $150 were extracted to the debit column of the trial balance.
- ○ The bank ledger account did not agree with the bank statement by a debit of $300.

(2 marks)

SECTION B – BOTH questions are compulsory and MUST be attempted

Background

36 Keswick Co acquired 80% of the share capital of Derwent Co on 1 June 20X5. The summarised draft statements of profit or loss for Keswick Co and Derwent Co for the year ended 31 May 20X6 are shown below:

	Keswick Co	*Derwent Co*
	$'000	$'000
Revenue	8,400	3,200
Cost of sales	(4,600)	(1,700)
Gross profit	3,800	1,500
Distribution costs	(1,500)	(510)
Administrative costs	(700)	(450)
Profit before tax	1,600	540
Tax	(600)	(140)
Profit of the year	1,000	400

During the year Keswick Co sold goods costing $1,000,000 to Derwent Co for $1,500,000. At 31 May 20X6, 30% of these goods remained in Derwent Co's inventory.

Task 1

Use the information above to complete the following financial statement:

	$'000
Revenue	
Less: Cost of sales	
Gross profit	
Less:	
Distribution costs	
Administrative costs	
Profit before tax	
Less: Tax	
Profit for the year	
Attributable to:	
Equity owners of Keswick Co	
Non-controlling interest	

(11 marks)

Task 2

Does each of the following factors illustrate the existence of a parent – subsidiary relationship?

1	50% of all shares and debt being held by an investor	Yes	No
2	Greater than 50% of the preference shares being held by an investor	Yes	No
3	Control	Yes	No
4	Greater than 50% of the equity shares being held by an investor	Yes	No
5	100% of the equity shares being held by an investor	Yes	No
6	Significant influence	Yes	No
7	Non-controlling interest	Yes	No
8	Greater than 50% of preference shares and debt being held by an investor	Yes	No

(4 marks)

(Total = 15 marks)

37 Malright, a limited liability company, has an accounting year end of 31 October. The accountant is preparing the financial statements as at 31 October 20X7. A trial balance has been prepared.

Task 1

Do each of the following items belong on the statement of financial position (SOFP) as at 31 October 20X7?

	DEBIT $'000	*CREDIT* $'000	*Belongs on SOFP as at 31 October 20X7*
Buildings at cost	740		Yes/No
Buildings accumulated depreciation at 1 November 20X6		60	Yes/No
Plant at cost	220		Yes/No
Plant accumulated depreciation at 1 November 20X6		110	Yes/No
Bank balance		70	Yes/No
Revenue		1,800	Yes/No
Net purchases	1,140		Yes/No
Inventory at 1 November 20X6	160		Yes/No
Cash	20		Yes/No
Trade payables		250	Yes/No
Trade receivables	320		Yes/No
Administrative expenses	325		Yes/No
Allowance for receivables at 1 November 20X6		10	Yes/No
Retained earnings at 1 November 20X6		130	Yes/No
Equity shares, $1		415	Yes/No
Share premium account		80	Yes/No
	2,925	2,925	

(4 marks)

Task 2

The allowance for receivables is to be increased to 5% of trade receivables. The allowance for receivables is treated as an administrative expense.

The year end journal for allowance for receivables is given below. Prepare the double entry by selecting the correct option for each row.

Trade receivable	DEBIT / CREDIT / No debit or credit
Administrative expenses	DEBIT / CREDIT / No debit or credit
Allowance for receivables	DEBIT / CREDIT / No debit or credit
Revenue	DEBIT / CREDIT / No debit or credit

Complete the following:

The amount included in the statement of profit or loss after the allowance is increased to 5% of trade receivables is $ [ ] '000. **(3 marks)**

Task 3

Plant is depreciated at 20% per annum using the reducing balance method and buildings are depreciated at 5% per annum on their original cost. Depreciation is treated as a cost of sales expense.

The year end journal for buildings and plant depreciation is given below. Using the information above, prepare the double entry by selecting the correct option for each row.

Administrative expenses	DEBIT / CREDIT / No debit or credit
Cost of sales	DEBIT / CREDIT / No debit or credit
Buildings cost	DEBIT / CREDIT / No debit or credit
Plant cost	DEBIT / CREDIT / No debit or credit
Buildings accumulated depreciation	DEBIT / CREDIT / No debit or credit
Plant accumulated depreciation	DEBIT / CREDIT / No debit or credit

Calculate the depreciation charge for the below for the year ended 31 October 20X7. Use the information above to help you.

Buildings $ [   ] '000

Plant $ [   ] '000

(5 marks)

Task 4

Closing inventory has been counted and is valued at $75,000.

Ignoring the depreciation charge calculated earlier, what is the cost of sales for the year?

$ [   ] '000

(1.5 marks)

Task 5

An invoice of $15,000 for energy costs relating to the quarter ended 30 November 20X7 was received on 2 December 20X7. Energy costs are included in administrative expenses.

Complete the following statements:

The double entry to post the year end adjustment for energy costs is:

Dr ________________________

Cr ________________________

The amount to be posted within the year end adjustment double entry above is

$ [   ] '000.

(1.5 marks)

(Total = 15 marks)

Answers to Mock Exam 1 (Specimen Exam)

Note. The ACCA examining team's answers follow these BPP Learning Media answers.

SECTION A

1 The correct answer is: Closing net assets + drawings – capital introduced – opening net assets

Remember that: closing net assets = opening net assets + capital introduced + profit – drawings.

2 The correct answer is: The exact amount of expenditure is reimbursed at intervals to maintain a fixed float.

Under the imprest system, a reimbursement which equals the total of expense vouchers paid out, is made at intervals to maintain the petty cash balance at a certain amount.

3 The correct answer is: 2 and 3 only.

The shareholder's exposure to debts is limited, not the company's.

4 The correct answer is:

PAYABLES CONTROL ACCOUNT

	$		$
Cash paid to suppliers	302,800	Balance b/f	60,000
Discounts received	2,960	Purchases (bal fig)	331,760
Contra	2,000		
Balance c/f	84,000		
	391,760		391,760

5 The correct answers are: A cheque received from a customer was credited to cash and correctly recognised in receivables. Rent received was included in the trial balance as a debit balance.

Errors (1) and (3) will not cause a trial balance imbalance. In error (1), the incorrect amount will be posted to both sales and receivables (Dr receivables, Cr sales). In error (3), the complete omission of the transaction will have no effect on the trial balance.

6 The correct answer is: Current assets $22,240, Current liabilities $nil.

Current assets	$
Loan asset	12,000
Interest (12,000 × 12%)	240
Prepayment (8/12 × 9,000)	6,000
Accrued rent	4,000
	22,240

7 The correct answer is:

	$
Profit	83,600
Purchase of van	18,000
Depreciation 18,000 × 25%	(4,500)
	97,100

8 The correct answer is: Xena is suffering from a worsening liquidity position in 20X9.

The ratios given relate to working capital and liquidity. The ratios have all worsened from 20X8 to 20X9, suggesting a worsening liquidity position. Receivables days have gone up, meaning that customers are taking longer to pay. Payables days have gone down, meaning that Xena is paying suppliers more quickly. Inventory turnover days have gone up, meaning inventories are being held for longer.

9 The correct answer is: Only the third statement is true. The direct and indirect method both produce the same figure for cash from operating activities. A rights issue of shares does feature in a statement of cash flows as cash is received for the issue, a bonus issue, however, would not feature as no cash is received. A profit on the sale of a non-current asset would not appear as an investing cash flow, rather the cash received from the sale would appear as an investing cash flow and the profit on the sale would be added back to profit before tax under the indirect method of calculating cash from operating activities.

10 The correct answer is: $475,900.

	$
Balance b/f (advance)	28,700
Balance b/f (arrears)	(21,200)
Cash received	481,200
Balance c/f (advance)	(31,200)
Balance c/f (arrears)	18,400
	475,900

11 The correct answers are: A sole trader's financial statements are private; a company's financial statements are sent to shareholders and may be publicly filed. A sole trader is fully and personally liable for any losses that the business might make.

A sole trader's financial statements are not publicly available, but they might be made available to some third parties, for example, the tax authorities.

12 The correct answer is: The analysis of financial statements using ratios provides useful information when compared with previous performance or industry averages.

Ratio analysis is useful for different users of financial statements, including management, potential investors, the government, employees and so on. Historical performance can give an indication of what might occur in the future, especially if a trend is shown, but it cannot be used to accurately predict the future.

13 The correct answer is: $36,750 DEBIT.

Motor vehicles – cost account is an asset and so the balance brought forward must be a debit. It is $36,750 as this is the figure that balances the account.

14 The correct answers are: The useful lives of intangible assets capitalised in the financial statements. Impairment losses written off intangible assets during the period.

An entity is **not** required to disclose a description of the development projects undertaken in the period, or a list of all intangible assets purchased or developed in the period. It is however, required to: disclose a description, the carrying amount and remaining amortisation period of any individual intangible asset that is **material** to the entity's financial statements, and distinguish between internally generated intangible assets capitalised in the period and those acquired in the period.

15 The correct answer is: 2 only.

Statement 2 is the only correct statement. Statement 1 is incorrect because capitalised development expenditure is amortised over its useful life. Statement 3 is incorrect because research expenditure is never capitalised.

16 The correct answer is: $6,600.

	$
Balance b/f	550
Expense incurred (cash)	5,400
Accrual c/f	650
	6,600

17 The correct answer is:

	$	$
Debts written off		37,000
Movement in allowance:		
(517 – 37) × 5%	24,000	
Less opening allowance	39,000	
		(15,000)
Receivables expense		22,000

18 The correct answer is: $437,830.

	$
Balance per ledger	438,900
Less contra	(980)
Posting error	(90)
Corrected balance	437,830

The individual returns from the purchase returns day book are posted to the individual accounts in the memorandum payables ledger, so the list of balances does not need to be adjusted for error (2).

19 The correct answers are: Carriage inwards. General administrative overheads.

Carriage outwards is a distribution expense. General administrative overheads should not be included per IAS 2.

20 The correct answer is: (6,700 + 84,000 – 5,400) × 20% = $17,060.

21 The correct answer is: Ordinary share capital, $225,000, Share premium account $250,000.

Share capital = 125,000 + 62,500 rights issue of 250,000 25c shares (500,000/2) + 37,500 bonus issue of 150,000 25c shares (750,000/5) = 225,000

Share premium = 100,000 + 187,500 rights issue (250,000 × 75c) – 37,500 bonus issue (150,000 × 25c) = 250,000

22 The correct answer is: 1 and 3 only.

Amortisation of development costs will appear in the statement of profit or loss, not the statement of changes in equity.

23 The correct answer is: $55,000.

	$
Depreciation:	12,000
Jan–Mar 240,000 × 20% × 3/12	9,000
Apr–Jun (240,000 – 60,000) × 20% × 3/12	34,000
Jul–Dec (180,000 + 160,000) × 20% × 6/12	12,000
	55,000

24 The correct answer is: 10,200/42,500 = 24%.

25 The correct answer is: Only the first statement is true. Sales tax is merely collected by the business, the ultimate consumer bears the expense.

26 The correct answer is: 1, 2, 3 and 4.

All of the errors would require an entry to the suspense account to correct them.

27 The correct answer is: Cannon should provide for the expected cost of the claim of $100,000.

It is probable that Canon will have to pay $100,000 for the claim, therefore a provision is required.

28 The correct answer is: $1,015.

1,040 – 25 = $1,015. The maintenance costs should not be capitalised. The sales tax is recoverable as Gareth is registered for sales tax, therefore is should not be capitalised.

29 The correct answer is: $3,670 balance at bank

	$
Overdraft per bank statement	(3,860)
Less: Unpresented cheques	(9,160)
Add: Outstanding lodgements	16,690
Cash at bank	3,670

30 The correct answers are: Completeness, Neutrality.

Completeness and neutrality are two characteristics given in the *Conceptual Framework*. Going concern is the underlying assumption and accruals is not a stated characteristic.

31 The correct answer is: $307,100.

RECEIVABLES LEDGER CONTROL ACCOUNT

	$		$
Opening balance	308,600	Cash	148,600
Credit sales	154,200	Contras	4,600
Interest charged on overdue accounts	2,400	Irrecoverable debts	4,900
		Closing balance	**307,100**
	465,200		465,200

32 The correct answer is: Yes for all of the statements. All of the events are adjusting events.

33 The correct answer is: $188,500.

Closing inventory:

	$
50 × $190	9,500
500 × $220	110,000
300 × $230	69,000
	188,500

34 The correct answer is: $32,400.

Closing net assets = opening net assets + capital introduced + profit – drawings

	$
Opening assets	569,400
Opening liabilities	(412,840)
Capital introduced	65,000
Drawings (800 × 12)	(9,600)
	211,960
Profit (bal fig)	**32,400**
Closing net assets (614,130 – 369,770)	244,360

35 The correct answer is: Discounts received of $150 were extracted to the debit column of the trial balance.

Discounts received are recorded as a credit balance and appear as other income in the statement of profit or loss: DEBIT payables, CREDIT discounts received.

SECTION B

36 **Task 1**

KESWICK GROUP
CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 MAY 20X6

	$'000
Revenue (8,400 + 3,200 – 1,500)	10,100
Less: Cost of sales (4,600 + 1,700 – 1,500 + 150)	(4,950)
Gross profit	5,150
Less:	
Distribution costs	(2,010)
Administration costs	(1,150)
Profit before tax	1,990
Less: Tax (600 + 140)	(740)
Profit of the year	1,250
Attributable to:	
Equity owners of Keswick Co	1,170
Non-controlling interest ($400,000 × 20%)	80

Task 2

1	Significant influence	No
2	Control	Yes
3	Non-controlling interest	Yes
4	Greater than 50% of the equity shares being held by an investor	Yes
5	100% of the equity shares being held by an investor	Yes
6	Greater than 50% of the preference shares being held by an investor	No
7	50% of all shares and debt being held by an investor	No
8	Greater than 50% of preference shares and debt being held by an investor	No

37 MALRIGHT CO

Task 1

	Belongs on SOFP as at 31 October 20X7?
Buildings at cost	Yes
Buildings accumulated depreciation at 1 November 20X6	No
Plant at cost	Yes
Plant accumulated depreciation at 1 November 20X6	No
Bank balance	Yes
Revenue	No
Net purchases	No
Inventory at 1 November 20X6	No
Cash	Yes
Trade payables	Yes
Trade receivables	Yes
Administrative expenses	No
Allowance for receivables at 1 November 20X6	No
Retained earnings at 1 November 20X6	No
Equity shares, $1	Yes
Share premium account	Yes

Task 2

The year end journal for the receivables allowance is:

Trade receivable	No debit or credit
Administrative expenses	DEBIT
Allowance for receivables	CREDIT
Revenue	No debit or credit

ANSWERS

The amount included in the statement of profit or loss after the allowance is increased to 5% of trade receivables is $6,000,000.

Workings (in $'000):

Required end allowance is 320,000 × 5% = $16,000

As the allowance for doubtful debts has an existing balance of $10,000, the allowance must be increased by $6,000.

Task 3

The year end journal for buildings and plant depreciation is:

Administrative expenses	No debit or credit
Cost of sales	DEBIT
Buildings cost	No debit or credit
Plant cost	No debit or credit
Buildings accumulated depreciation	CREDIT
Plant accumulated depreciation	CREDIT

The depreciation charge for the year ended 31 October 20X7 is:

Buildings $37,000 (*Working*: 740 × 5%)
Plant $22,000 (*Working*: (220 –110) × 20%)

Task 4

The cost of sales for the year is $1,225,000.

Working	$'000
Opening inventory	160
Purchases	1,140
Closing inventory	(75)
	1,225

Task 5

The year end adjustment for energy costs is:

DEBIT administrative expenses
CREDIT accrual

Energy cost accrual
15,000 × 2/3 = $10,000

ACCA's exam answers to Specimen Exam

FA and FFA Full Specimen Exam Answers

<table>
<tr><th>Question</th><th>Correct answer</th><th>Marks</th></tr>
<tr><td>1</td><td>Closing net assets + drawings – capital introduced – opening net assets = net profit.
Re-arranging the equation:
Opening net assets – drawings + capital introduced + net profit = closing net assets</td><td>2</td></tr>
<tr><td>2</td><td>The exact amount of expenditure is reimbursed at intervals to maintain a fixed float.</td><td>2</td></tr>
<tr><td>3</td><td>2 and 3 only</td><td>2</td></tr>
<tr><td>4</td><td>331,760
<table>
<tr><td></td><td>$</td></tr>
<tr><td>Trade Payables at 1 July 20X5</td><td>60,000</td></tr>
<tr><td>Cash paid to suppliers</td><td>(302,800)</td></tr>
<tr><td>Discounts received</td><td>(2,960)</td></tr>
<tr><td>Contra between payables and receivables ledger</td><td>(2,000)</td></tr>
<tr><td>Purchases (Balancing Figure)</td><td>331,760</td></tr>
<tr><td>Trade Payables 30 June 20X6</td><td></td></tr>
</table>
OR
TRADE PAYABLES
<table>
<tr><td></td><td>$</td><td></td><td>$</td></tr>
<tr><td>Cash Paid</td><td>302,800</td><td>Balance 1 July 20X5</td><td>60,000</td></tr>
<tr><td>Discounts Received</td><td>2,960</td><td></td><td></td></tr>
<tr><td>Contra between payables and receivables ledger</td><td>2,000</td><td>Purchases (Balancing Figure)</td><td>331,760</td></tr>
<tr><td>Trade Payables 30 June 20X6</td><td>84,000</td><td>Trade Payables 30 June 20X6</td><td>84,000</td></tr>
<tr><td></td><td>391,760</td><td></td><td>391,760</td></tr>
</table></td><td>2</td></tr>
<tr><td>5</td><td>A cheque received from a customer was credited to cash and correctly recognised in receivables – the correct entry should have been a debit to cash.
Rent received was included in the trial balance as a debit balance – rent received is a credit balance.</td><td>2</td></tr>
<tr><td>6</td><td>Current assets: $22,240
Current liabilities: $nil
<table>
<tr><td></td><td>Current assests
$</td><td><i>Current liabilities</i>
$</td></tr>
<tr><td>(1) Employee Loan</td><td>12,000</td><td></td></tr>
<tr><td>(1) Loan Interest (12,000 × 2%)</td><td>240</td><td></td></tr>
<tr><td>(2) Prepayment $9,000 × 8/12</td><td>6,000</td><td></td></tr>
<tr><td>(3) Accrued income $4,000</td><td>4,000</td><td></td></tr>
<tr><td></td><td>22,240</td><td>Nil</td></tr>
</table></td><td>2</td></tr>
</table>

Question	Correct answer	Marks
7	97,100 Current assets / $ Net profit 83,600 Add back incorrect expense 18,000 Less depreciation (18,000 × 25%) (4,500) Adjusted net profit (97,100)	2
8	Xena is suffering from a worsening liquidity position in 20X9 – The current ratio (current assets : current liabilities) has decreased.	2
9	A statement of cash flows prepared using the direct method produces a different figure to net cash from operating activities from that produced if the indirect method is used – False Right issues of shares do not feature in a statement of cash flows – False A surplus on revaluation of a non-current asset will not appear as an item in a statement of cash flows – True A profit on the sale of a non-current asset will appear as an item under cash flows from investing activities in a statement of cash flows – False The profit on sale will be deducted from the profit before tax in the operating activities section of the statement of cash flows. The cash proceeds will appear under investing activities.	2
10	$475,900 $ Rent received in advance 30 April 20X5 28,700 Less: rent in arrears 30 April 20X5 (21,200) Add recent received in year 481,200 Less rent received in advance 30 April 20X6 (31,200) Add rent in arrears 30 April 20X6 18,400 Rental income in statement of profit or loss 475,900	2
11	A sole trader's financial statements are private; a company's financial statements are sent to shareholders and may be publically filed. A sole trader is fully and personally liable for any losses that the business might make.	2
12	The analysis of financial statements using ratios provides useful information when compared with previous performance or industry averages.	2
13	$36,750 Dr	2
14	The useful lives of intangible assets capitalised in the financial statements Impairment losses written off intangible assets during the period These are required by IAS 38 *Intangible Assets*	2

Question	Correct answer	Marks
15	2 only Capitalised development expenditure is amortised over the period it is expected to generate economic benefits. Research expenditure is always written off as an expense to profit or loss.	2
16	$6,600 ELECTRICITY EXPENSE Payment brought forward 550 | P/L a/c (balancing figure) 6,600 Cash paid 5,400 Accrual carried forward 650 6,600 | 6,600	2
17	22,000 Irrecoverable debt written off — 37,000 debit Decrease in allowance for receivables — 15,000 credit Expense in statement of profit or loss — 22,000 debit *Workings:* Trade receivables 30 June 20X6 (517,000 – 37,000) — 480,000 Allowance for receivables 5% × 480,000 — 24,000 Allowance for receivables at 30 June 20X5 — 39,000 Decrease in allowance for receivables — (15,000)	2
18	$437,830 $ List of balances on payable ledger — 438,900 (1) Contra — (980) (2) Does not affect list of balances (3) Error on invoice posting — (90) Reconciled list of balances to control account — 437,830 The reconciled balance is reported in statement of financial position.	2
19	Carriage inwards Depreciation of factory plant	2
20	17,060 $ Opening inventory — 6,700 Add purchases — 84,000 Less closing inventory — (5,400) Cost of sales — 85,300 Gross profit = 20% × $85,300 = $17,060	2

ANSWERS

Question	Correct answer	Marks
21	Ordinary share capital: $225,000 Share premium account: $250,000	2

	No. of shares	Ordinary share capital $	Share premium $
At 31 December 20X4	500,000	125,000	100,000
Rights issue	250,000 at 25¢	62,500	At 75¢ 187,500
	750,000		
Bonus	150,000 at 25¢	37,500	(37,500)
At 31 December 20X5	900,000	225,000	225,000

Question	Correct answer	Marks
22	**1 and 3 only** Amortisation of development costs are expensed to profit or loss.	2
23	$55,000	2

		Depreciation $
	$240,000 × 20% × 3/12	12,000
Disposal	$\frac{(60,000)}{\$180,000} \times 20\% \times 3/12$	9,000
Purchase	$\frac{160,000}{\$340,000} \times 20\% \times 6/12$	34,000
Depreciation for year ended 31 December 20X5		55,000

Question	Correct answer	Marks
24	24% Hassan's capital employed = Profit before interest and taxation Capital employed Capital employed = shareholders equity plus non current liabilities $= \frac{\$10,200}{\$42,500} = 24\%$	2
25	Sales tax is an expense to the ultimate customer of the goods purchased – True Sales tax is recorded as income in the accounts of the entity selling the goods – False	2

Question	Correct answer	Marks
26	**1, 2, 3 and 4** Entries required to correct; (1) DR Suspense account — $ / CR Ordinary Share Capital — $ 3,000 Being shortfall in capital recorded (2) DR Planet asset account $ 2,800 DR Planet repairs $ 2,800 CR Suspense $ 5,600 Being correction of incorrect posting to incorrect account (3) DR Petty Cash $ 500 CR Suspense $ 500 Being correction of omission of Petty cash balance (4) DR Suspense $ 9,000 CR Motor Vehicle cost $ 9,000 Being correction of error in amount posted on purchase of car	2
27	**Cannon should provide for the expected cost of the claim of $100,000.** **There is an 80% chance that Cannon will lose the claim – there is therefore an obligation and it is probable they will be required to settle the claim for $100,000.**	2
28	**1,015** Computer $ 890 Additional memory 95 Delivery 10 Installation 20 Capitalise 1,015	2
29	**$3,670 balance at bank** Overdraft per bank statement $ (3,860) Less: unpresented cheques (9,160) (13,020) Add: outstanding lodgements 16,690 Cash at bank 3,670	2
30	**Completeness** **Neutrality**	2

ANSWERS

Question	Correct answer	Marks
31	**$307,100** RECEIVABLES LEDGER CONTROL ACCOUNT Opening balance \$308,600; Credit sales 152,800; Interest charged on overdue accounts 2,400; total 463,800 Cash received from credit customers \$147,200; Irrecoverable debts written off 4,900; Contras against credit balances in payables ledger 4,600; Closing balance 307,100; total 463,800	2
32	**Yes Yes Yes Yes** All of these material events provide evidence of conditions that existed at the end of the reporting period and are therefore adjusting events in accordance with IAS 10 Events after the Reporting Period.	2
33	**$188,500** (see workings below)	2
34	**$32,400** (see workings below)	2
35	Discounts received of $150 was extracted to the debit column of the trial balance. Discounts received is a credit balance and is an error of commission. The trial balance debits exceed the credits by $300 as there is an incorrect debit of $150 and also an omission on the credit side of $150.	2

Question 31 – RECEIVABLES LEDGER CONTROL ACCOUNT

	$		$
Opening balance	308,600	Cash received from credit customers	147,200
Credit sales	152,800	Irrecoverable debts written off	4,900
Interest charged on overdue accounts	2,400	Contras against credit balances in payables ledger	4,600
		Closing balance	307,100
	463,800		463,800

Question 33

Date of issue and purchase	*Quantity units*	*Valued issues*	*Cost of issues*
Sale 1 November	400	400 at $190	76,000
Sale 15 April	250	250 at $190	47,500
Issued	650		
Opening inventory	700		
Closing inventory	50	50 at $190	9,500
Purchased 1 July	500	500 at $220	110,000
Purchased 1 February	300	300 at $230	69,000
			188,500

Question 34

	Capital	*= Asset - liabilities*
At 1 January 20X8	156,560	= 569,400 – 412,840
Capital introduced	65,000	
Drawings ($800 × 12)	(9,600)	
Profit (balancing figure)	32,400	
At 31 December 20X8	244,360	= 614,130 – 369,770

MTQ 36

Task 1 (11 marks)

Consolidated statement of profit or loss for the year ended 31 May 20X6	
	£'000
Revenue	8,400 + 3,200 – 1,500
Less: Cost of sales	4,600 + 1,700 – 1,500 + (30% × 500)
Gross profit	5,150
Less: Distribution costs	2,010 (1500 + 510)
Administrative costs	1,150 (700 + 450)
Profit before tax	1,990
Less: Tax	740 (600 + 140)
Profit for the year	1,250
Attributable to:	
Equity owners of Keswick Co	Group profit for the year – Non-controlling interest
Non-controlling interest	80 (400 × 20%)

Task 2 (4 marks)

Significant influence	No
Control	Yes
Non-controlling interest	Yes
Greater than 50% of the equity shares being held by an investor	Yes
100% of the equity shares being held by an investor	Yes
Greater than 50% of the preference shares being held by an investor	No
50% of all shares and debt being held by an investor	No
Greater than 50% of preference shares and debt being held by an investor	No

MTQ 37

Task 1 (4 marks)

Buildings at costs	Yes
Buildings accumulated depreciation at 31 October 20X7	No
Plant at cost	Yes
Plant accumulated depreciation at 31 October 20X7	No
Bank balance	Yes

Revenue	No
Net purchases	No
Inventory at 1 November 20X6	No
Cash	Yes
Trade payables	Yes
Trade receivables	Yes
Administrative expenses	No
Allowance for receivables at 1 November 20X6	No
Retained earnings at 1 November 20X6	No
Equity shares, $1	Yes
Share premium account	Yes

Task 2 (3 marks)

Trade receivable	No debit or credit
Administrative expenses	Debit
Allowance for receivables	Credit
Revenue	No debit or credit
Profit or loss	6 thousand $'000 5% × 320 16 Brought forward 10 Increase 6

Task 3 (5 marks)

Administrative expenses	No debit or credit
Cost of sales	Debit
Buildings cost	No debit or credit
Plant cost	No debit or credit
Buildings accumulated depreciation	Credit
Plant accumulated depreciation	Credit
Buildings depreciation charge	37 thousand $(740,000 × 5%)
Plant depreciation charge	22 thousand $(220,000 – 110,000) × 20%

Task 4 (1.5 marks)

Cost of sales	**1225 thousand** Opening inventory 160,000 Net purchases 1,140,000 Closing inventory (75,000) Cost of sales 1,225,000

Task 5 (1.5 marks)

Debit	**Administrative expenses**
Credit	**Accrual**
Adjustment value	**10 thousand** **$(15,000 × 2/3)**

ANSWERS

Mock exam 2

Foundations in Accountancy Financial Accounting (FA)

Mock Exam 2

Questions	
Time allowed	2 hours
This exam is divided into two sections: Section A – ALL 35 questions are compulsory and MUST be attempted Section B – BOTH questions are compulsory and MUST be attempted	

DO NOT OPEN THIS EXAM UNTIL YOU ARE READY TO START UNDER EXAMINATION CONDITIONS

SECTION A

1 In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which of the following criteria must be present in order for a company to recognise a provision?

1 There is a present obligation as a result of past events.

2 It is probable that a transfer of economic benefits will be required to settle the obligation.

3 A reliable estimate of the obligation can be made.

○ All three criteria must be present

○ 1 and 2 only

○ 1 and 3 only

○ 2 and 3 only **(2 marks)**

---

2 Which of the following types of error is never indicated when a trial balance is extracted?

○ Errors of commission

○ Errors of omission

○ Errors of principle

○ Transposition errors **(2 marks)**

---

3 Nooma Co owns 55% of the ordinary shares of Matic Co. What is the correct accounting treatment of the revenues and costs of Matic Co in the consolidated statement of profit or loss of the Nooma Group?

○ The revenues and costs of Matic Co are added to the revenues and costs of Nooma Co on a line by line basis.

○ 55% of the profit after tax of Matic Co should be added to Nooma Co's consolidated profit after tax.

○ 55% of the revenues and costs of Matic Co are added to the revenues and costs of Nooma Co on a line by line basis.

○ Only dividends received from Matic Co are shown in the consolidated statement of profit or loss of Nooma Co. **(2 marks)**

---

4 Your firm's cash book at 30 April 20X8 shows a balance at the bank of $2,490. Comparison with the bank statement at the same date reveals the following differences:

	$
Unpresented cheques	840
Bank charges not in cash book	50
Receipts not yet credited by the bank	470
Dishonoured cheque not in cash book	140

What is the adjusted bank balance per the cash book at 30 April 20X8?

$	

(2 marks)

---

5 W Co, a sales tax registered trader, bought a new printing machine. The cost of the machine was $80,000, excluding sales tax at 17.5%. The delivery costs were $2,000 and installation costs were $5,000. Before using the machine to print customers' orders, a test was undertaken and the paper and ink cost $1,000.

What should be the cost of the machine in the company's statement of financial position?

$	

(2 marks)

---

6 Which of the following correctly defines 'equity' according to the IASB's *Conceptual Framework*?

- ○ Equity is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefit.
- ○ Equity is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- ○ Equity is the residual interest in the assets of the entity after deducting all its liabilities.
- ○ Equity is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities. (2 marks)

---

7 Which of the following is a qualitative characteristic of financial information included in the IASB's *Conceptual Framework*?

- ○ Relevance
- ○ Materiality
- ○ Consistency
- ○ Accruals

(2 marks)

---

8 S & Co sells three products – A, B and C. The following information was available at the year end.

	Basic	*Super*	*Luxury*
	$ per unit	$ per unit	$ per unit
Original cost	10	9	20
Estimated selling price	9	12	26
Selling and distribution costs	1	4	5
	units	*units*	*units*
Units of inventory	500	1,250	850

In accordance with IAS2 *Inventories*, what is the value of inventory at the year end?

$	

(2 marks)

---

9 A car was purchased by a business in May 20X1 for:

	$
Cost	10,000
Road fund licence	150
Total	10,150

The business adopts a date of 31 December as its year end.

The car was traded in for a replacement vehicle in August 20X4 at an agreed value of $5,000.

It has been depreciated at 25% per annum on the reducing balance method, charging a full year's depreciation in the year of purchase and none in the year of sale.

What was the profit or loss on disposal of the vehicle during the year ended December 20X4?

- ○ Loss of $2,890
- ○ Profit of $781
- ○ Profit of $2,500
- ○ Profit of $3,750

(2 marks)

---

10 At 1 January 20X3, Attila Co had an allowance for receivables of $35,000. At 31 December 20X3, the trade receivables of the company were $620,000. It was decided to:

1 Write off (as uncollectable) receivables totalling $30,000; and

2 Adjust the allowance for receivables to an amount equivalent to 5% of receivables.

What is the combined expense that should appear in the company's statement of profit or loss for the year, for irrecoverable debts and the allowance for receivables?

- ○ $24,500
- ○ $26,000
- ○ $34,000
- ○ $35,500

(2 marks)

---

11 The annual sales of a company are $235,000 including sales tax at 17.5%. Half of the sales are on credit terms, half are cash sales. The receivables in the statement of financial position are $23,500.

What is the output tax?

$	

(2 marks)

---

12 Beta purchased some plant and equipment on 1 July 20X1 for $40,000. The scrap value of the plant in ten years' time is estimated to be $4,000. Beta's policy is to charge depreciation on the straight line basis, with a proportionate charge in the period of acquisition.

What is the depreciation charge on the plant in Beta's financial statements for the year ended 30 September 20X1?

- ○ $900
- ○ $1,000
- ○ $3,600
- ○ $4,000

(2 marks)

---

13 The following figures are taken from the statement of financial position of GEN Co.

	$m
Inventory	2
Receivables	3
Cash	1
Payables	3
Bank loan repayable in 5 years time	3

What is GEN Co's current ratio?

- ○ 1.33
- ○ 2.00
- ○ 1.00
- ○ 0.33

(2 marks)

14 A particular source of finance has the following characteristics: fixed payments, a fixed repayment date, it is secured on the assets of the company and the payments are classified as an expense.

Which of the following best describes this source of finance?

- ○ A redeemable preference share
- ○ An irredeemable preference share
- ○ A loan note
- ○ An overdraft

(2 marks)

15 Tong Co acquired 100% of the $100,000 ordinary share capital of Cheek Co for $1,200,000 on 1 January 20X5 when the retained earnings of Cheek Co were $550,000 and the balance on the revaluation surplus was $150,000. At the date of acquisition the fair value of plant held by Cheek Co was $80,000 higher than its carrying value.

What is the goodwill arising on the acquisition of Cheek Co?

- ○ $320,000
- ○ $400,000
- ○ $470,000
- ○ $550,000

(2 marks)

16 During the year ended 31 December 20X1, Alpha Rescue had the following transactions on the receivables ledger.

	$
Receivables at 1 January 20X1	100,000
Receivables at 31 December 20X1	107,250
Goods returned	12,750
Amounts paid into the bank from receivables	230,000
Discount received	75,000

What were the sales for the year?

- ○ $107,250
- ○ $240,000
- ○ $250,000
- ○ $320,000

(2 marks)

---

17 Financial analysts calculate ratios from the published financial statements of large companies. Which one of the following reasons is **UNLIKELY** to be a reason why they calculate and analyse financial ratios?

- ○ Ratios can reduce lengthy or complex financial statements into a fairly small number of more easily-understood indicators.
- ○ Ratios can predict a company's future performance.
- ○ Ratios can help with comparisons between businesses in the same industry.
- ○ Ratios can indicate changes in the financial performance and financial position of a business over time.

(2 marks)

---

18 Cat Co has held 85% of the share capital of Dog Co for many years. During the current year Cat Co sold goods to Dog Co for $15,000, including a mark up of 25% on cost. 60% of these goods were still in inventory at the year end.

The following extract was taken from the accounting records of Cat Co and Dog Co at 31 March 20X8.

	Cat Co	*Dog Co*
	$'000	$'000
Opening inventory	650	275
Closing Inventory	750	400

What is the figure for inventory to be included in the statement of financial position of the Cat Group at 31 March 20X8?

- ○ $1,151,800
- ○ $1,152,250
- ○ $1,197,750
- ○ $1,148,200

(2 marks)

---

19 A company's quick ratio has increased from 0.9:1 at 31 December 20X1 to 1.5:1 at 31 December 20X2. Which of the following events could explain this increase?

- ○ Improved inventory control
- ○ The refinancing of a long-term loan
- ○ A reduction in payables
- ○ An increase in payables

(2 marks)

---

20 Which of the following represents an error of original entry?

- ○ The purchase of goods for resale using cash was debited to the purchases account and credited to the cash book using the incorrect amount in both cases.
- ○ The purchase of goods for resale using cash was debited to the motor vehicles account and credited to the cash book using the correct amount in both cases.
- ○ The purchase of goods for resale using cash was debited to the purchases account and credited to the sales day book using the correct amount in both cases.
- ○ The purchase of goods for resale using cash was debited to the purchases account but no credit entry was made.

(2 marks)

---

21 A machine was purchased for $100,000 on 1 January 20X1 and was expected to have a useful life of 10 years. After three years, management revised their expectation of the remaining useful life to 20 years. The business depreciates machines using the straight line method.

What is the carrying value of the machine at 31 December 20X5?

$	

(2 marks)

---

22 Your organisation has received a statement of account from one of its suppliers, showing an outstanding balance due to them of $1,350. On comparison with your ledger account, the following is determined:

- Your ledger account shows a credit balance of $260.
- The supplier has disallowed a settlement discount of $80 due to late payment of an invoice.
- The supplier has not yet allowed for goods returned at the end of the period of $270.
- Cash in transit of $830 has not been received by the supplier.

Following consideration of these items, what is the unreconciled difference between the two records?

- ○ $nil
- ○ $10
- ○ $90
- ○ $180

(2 marks)

---

23 A company is preparing its statement of cash flows for the year ended 31 December 20X2. Relevant extracts from the accounts are as follows.

Statement of profit or loss	$	
Depreciation	15,000	
Profit on sale of non-current assets	40,000	
Statement of financial position	*20X2*	*20X1*
	$	$
Plant and machinery – cost	185,000	250,000
Plant and machinery – depreciation	45,000	50,000

Plant and machinery additions during the year were $35,000. What is the cash flow arising from the sale of non-current assets?

- ○ $40,000
- ○ $100,000
- ○ $120,000
- ○ $135,000

(2 marks)

---

24 Which body is responsible for issuing International Financial Reporting Standards?

- ○ IFRS Interpretations Committee
- ○ IFRS Advisory Council
- ○ International Accounting Standards Board
- ○ The United Nations

(2 marks)

---

25 Teo Co acquired 95% of the ordinary share capital of Mat Co 31 December 20X0. The following information relates to Mat Co:

	20X0	*20X1*
	$'000	$'000
Retained earnings	700	800
Revaluation surplus	–	100
	700	900

The fair value of the non-controlling interest in Mat Co at the date of acquisition was $45,000.

What is the amount reported for non-controlling interest in the statement of financial position of the Teo Group as at 31 December 20X1?

$	

(2 marks)

---

26 Identify, by selecting the relevant boxes in the table below, whether each of the following statements is correct or incorrect.

AZ owns 25% of the preferred (non-voting) share capital of BX, which means that BX is an associate of AZ.	Correct	Incorrect
CW has a 10% shareholding in DY and can appoint 4 out of 6 directors to the board of DY, so DY is classified as a subsidiary of CW.	Correct	Incorrect
ES has significant influence over FT, which means that FT is an associate of ES.	Correct	Incorrect
GR owns 55% of the share capital of HU, but by agreement with the minority shareholder, does not have control or significant influence over the financial and operating policies of HU, so HU is a simple investment of GR.	Correct	Incorrect

(2 marks)

27 Which, if any, of the following journal entries is correct according to their narratives?

		DEBIT $	*CREDIT* $
1	B receivables ledger account	450	
	Irrecoverable debts account		450
	Irrecoverable balance written off		
2	Investments: Q ordinary shares	100,000	
	Share capital		100,000
	80,000 shares of 50c each issued at $1.25 in exchange for shares in Q.		
3	Suspense account	1,000	
	Motor vehicles account		1,000
	Correction of error – debit side of Motor vehicles account undercast by $1,000		

○ None of them

○ 1 only

○ 2 only

○ 3 only **(2 marks)**

QUESTIONS

28 Jay Co values inventories on the first in first out (FIFO) basis. Jay Co has 120 items of product A valued at $8 each in inventory at 1 October 20X9. During October 20X9, the following transactions in product A took place.

3 October	Purchases	180 items at $9 each
4 October	Sales	150 items at $12 each
8 October	Sales	80 items at $15 each
18 October	Purchases	300 items at $10 each
22 October	Sales	100 items at $15 each

What is the closing balance on the inventory account at 31 October 20X9?

$ ________

(2 marks)

---

29 Fred's trial balance did not balance so he opened a suspense account with a debit balance of $346. Control accounts are maintained for receivables and payables.

Fred discovered the following:

1 The sales day book was undercast by $400.

2 Purchases of $520 from the purchases day book have only been recorded in the payables ledger control account.

3 Profit on sale of non-current assets of $670 had been recorded in the sundry income account as $760.

What is the remaining balance on Fred's suspense account after these errors have been corrected?

- ○ $264 CREDIT
- ○ $136 DEBIT
- ○ $956 DEBIT
- ○ $1,266 DEBIT

(2 marks)

---

30 Charles Co entered into the following transactions:

1 He made a credit sale to Mary allowing a 5% trade discount on the list price of $640, and a further 5% discount for immediate cash payment.

2 He purchased goods with a list price of $600 and received a 10% trade discount and further 2% discount for payment within seven days. He paid three days later.

How much discount should be recorded in the Discounts Received account as a result of the above transactions?

- ○ $10.80
- ○ $30.40
- ○ $62.40
- ○ $70.80

(2 marks)

---

31 Where, in a company's financial statements complying with International Financial Reporting Standards, should you find the proceeds of non-current assets sold during the period?

- ○ Statement of cash flows and statement of financial position
- ○ Statement of changes in equity and statement of financial position
- ○ Statement of profit or loss and other comprehensive income and statement of cash flows
- ○ Statement of cash flows only **(2 marks)**

32 If the current ratio for a company is equal to its quick ratio, which of the following statements is true?

- ○ The current ratio must be greater than one.
- ○ The company does not carry any inventory.
- ○ Receivables plus cash is greater than payables minus inventories.
- ○ Working capital is positive. **(2 marks)**

33 The closing inventory of Epsilon amounted to $284,000 at 30 September 20X1, the reporting date. This total includes two inventory lines about which the inventory taker is uncertain.

1 500 items which had cost $15 each and which were included at $7,500. These items were found to have been defective at the end of the reporting period. Remedial work after the reporting period cost $1,800 and they were then sold for $20 each. Selling expenses were $400.

2 100 items which had cost $10 each. After the reporting period they were sold for $8 each, with selling expenses of $150.

What figure should appear in Epsilon's statement of financial position for inventory?

- ○ $283,650
- ○ $283,800
- ○ $284,000
- ○ $284,450 **(2 marks)**

34 Which **TWO** of these statements about research and development expenditure are correct?

- ☐ If certain conditions are satisfied, research and development expenditure must be capitalised.
- ☐ One of the conditions to be satisfied if development expenditure is to be capitalised is that the technical feasibility of the project is reasonably assured.
- ☐ The amount of capitalised development expenditure for each project should be reviewed each year. If circumstances no longer justify the capitalisation, the balance should be written off over a period not exceeding five years.
- ☐ Development expenditure may only be capitalised if it can be shown that adequate resources will be available to finance the completion of the project.

(2 marks)

35 A company measures the average time to collect receivables as:

[Receivables at end of financial year/Annual credit sales] × 365 days

Accounting ratios have just been calculated from the financial statements for the financial year that has just ended. These show an abnormally high average time to collect receivables, compared with ratios calculated for the previous financial year.

Which of the following may help to explain this unusually high turnover period for trade receivables?

- ○ There was an unusually large sale on credit close to the end of the financial year.
- ○ The company has seasonal trade, and sales in the final quarter of the year are always higher than in the other quarters.
- ○ However, sales in the final quarter of the year that has just ended were lower than in the previous year.

(2 marks)

SECTION B

36 You have been given the following information relating to a limited liability company called Nobrie. This company is preparing financial statements for the year ended 31 May 20X4.

NOBRIE
STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 MAY 20X4

	$'000
Revenue	66,600
Cost of sales	(13,785)
Gross profit	52,815
Distribution costs	(7,530)
Administrative expenses	(2,516)
Investment income	146
Finance cost	(1,177)
Profit before tax	41,738
Tax	(9,857)
Profit for the year	31,881
Retained earnings brought forward at 1 June 20X3	28,063
Retained earnings carried forward at 31 May 20X4	59,944

NOBRIE
STATEMENTS OF FINANCIAL POSITION AS AT 31 MAY

	20X4		*20X3*	
	$'000	$'000	$'000	$'000
Assets				
Non-current assets				
Cost		144,844		114,785
Accumulated depreciation		(27,433)		(26,319)
		117,411		88,466
Current assets				
Inventory	24,931		24,065	
Trade receivables	18,922		13,238	
Cash	3,689		2,224	
		47,542		39,527
Total assets		164,953		127,993
Equity and liabilities				
Equity				
Ordinary share capital	27,000		23,331	
Share premium	14,569		10,788	
Revaluation surplus	15,395		7,123	
Retained earnings	59,944		28,063	
		116,908		69,305
Non current liabilities				
6% loan note		17,824		24,068
Current liabilities				
Bank overdraft	5,533		6,973	
Trade payables	16,699		20,324	
Taxation	7,989		7,323	
		30,221		34,620
Total equity and liabilities		164,953		127,993

Additional information

(a) During the year ended 31 May 20X4, the company sold a piece of equipment for $3,053,000, realising a profit of $1,540,000. There were no other disposals of non-current assets during the year.

(b) Depreciation of $5,862,000 has been charged.

(c) There were no amounts outstanding in respect of interest payable or receivable as at 31 May 20X3 or 20X4.

(d) There were no dividends paid or declared during the year.

Task 1

Complete the following cash flows from operating activities section in the statement of cash flows for Nobrie for the year ended 31 May 20X4.

NOBRIE
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 MAY 20X4

	$'000
Cash flow from operating activities	
Net profit before tax	
Adjustments for	
Depreciation	
Profit on equipment disposal	
Investment income	
Interest paid	
Operating profit before working capital changes	
Increase in inventory	
Increase in receivables	
Decrease in payables	
Cash generated from operations	
Interest received	
Interest paid	
Tax paid	
Net cash flows from operating activities	

(8 marks)

Task 2

The carrying amount of property, plant and equipment disposed of is

$ ____ ,000.

The purchases of property, plant and equipment for the year ended 31 May 20X4 is

$ ____ ,000.

(5 marks)

Task 3

Which **TWO** of the following increases in equity accounts are shown as cash inflows in the cash flows from financing section of the statement of cash flows:

- ☐ Increase in share capital
- ☐ Increase in share premium
- ☐ Increase in revaluation surplus
- ☐ Increase in retained earnings

(2 marks)

(Total = 15 marks)

37 The draft statements of financial position of Spyder and its subsidiary company Phly at 31 October 20X5 are as follows.

	Spyder $'000	*Phly* $'000
Assets		
Non-current assets		
Tangible assets		
Land and buildings	315,000	278,000
Plant	285,000	220,000
	600,000	498,000
Investment		
Shares in Phly at cost	660,000	–
Current assets		
Inventory	357,000	252,000
Receivables	525,000	126,000
Bank	158,000	30,000
	1,040,000	408,000
	2,300,000	906,000
Equity and liabilities		
Equity		
$1 ordinary shares	1,500,000	600,000
Reserves	580,000	212,000
	2,080,000	812,000
Current liabilities		
Payables	220,000	94,000
Total equity and liabilities	2,300,000	906,000

The following information is also available.

(a) Spyder purchased 480 million shares in Phly some years ago, when Phly had a credit balance of $95 million in reserves. The fair value of the non-controlling interest at the date of acquisition was $165 million.

(b) At the date of acquisition the freehold land of Phly was valued at $70 million in excess of its book value. The revaluation was not recorded in the accounts of Phly.

(c) Phly's inventory includes goods purchased from Spyder at a price that includes a profit to Spyder of $12 million.

(d) At 31 October 20X5 Phly owes Spyder $25 million for goods purchased during the year.

Task 1

Calculate the total goodwill on acquisition by completing the table below.

Calculation of goodwill

	$'000
Fair value of consideration transferred	______
Fair value of NCI at acquisition	______
Net acquisition-date fair value of identifiable assets acquired and liabilities assumed:	______
Goodwill	______

(5 marks)

Task 2

Complete the following consolidated statement of financial position for Spyder as at 31 October 20X5.

SPYDER GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 OCTOBER 20X5

	$'000
Assets	
Non-current assets	
Goodwill	
Land and buildings	
Plant	
Current assets	
Inventory	
Receivables	
Bank	
Total assets	
Equity and liabilities	
Equity attributable to owners of the parent	
$1 ordinary shares	
Retained earnings	
Non-controlling interest	
Current liabilities	
Payables	
Total equity and liabilities	

(10 marks)

(Total = 15 marks)

Answers to Mock Exam 2

SECTION A

1 The correct answer is: All three criteria must be present.

2 The correct answer is: Errors of principle.

The existence of a transposition error should always be revealed by a trial balance. Errors of omission and commission may or may not be revealed, depending on the nature of the error and whether the error has resulted in a mismatch between debt and credit entries in the nominal ledger accounts. An error of omission is never revealed, because there have been no entries in the nominal ledger for the omitted item.

3 The correct answer is: The revenues and costs of Matic Co are added to the revenues and costs of Nooma Co on a line by line basis.

Matic Co is a subsidiary of Nooma Co, so the results of Matic Co should be consolidated on a line by line basis with the results of Nooma Co.

4 The correct answer is:

Original cash book figure	2,490
Adjustment re charges	(50)
Adjustment re dishonoured cheque	(140)
	2,300

5 The correct answer is: $88,000.

	$
Cost of machine	80,000
Installation	5,000
Delivery	2,000
Testing	1,000
	88,000

6 The correct answer is: Equity is the residual interest in the assets of the entity after deducting all its liabilities.

The first option is the definition of a liability, the second option is the definition of an asset and the fourth option is the definition of income according to the *Conceptual Framework*.

7 The correct answer is: Relevance.

Relevance is a qualitative characteristic. The other options are accounting concepts.

8 The correct answer is: $31,000.

	Cost	*Net realisable value*	*Lower of cost & NRV*	*Units*	*Value*
	$	$	$		$
A	10	8	8	500	4,000
B	9	8	8	1,250	10,000
C	20	21	20	850	17,000
					31,000

9 The correct answer is: Profit of $781.

	$
Cost	10,000
20X1 Depreciation	2,500
	7,500
20X2 Depreciation	1,875
	5,625
20X3 Depreciation	1,406
	4,219
20X4 Part exchange	5,000
Profit	781

ANSWERS

10 The correct answer is: $24,500.

	$	$
Amount written off		30,000
Allowance for receivables at 31 December 20X3 5% × $(620,000 – 30,000)	29,500	
Allowance for receivables at 1 January 20X3	35,000	
Reduction in allowance for receivables		(5,500)
Combined expense		24,500

11 The correct answer is: $35,000.

$$\text{Output tax} = \frac{235{,}000}{117.5} \times 17.5$$

12 The correct answer is: $900.

($36,000/10) × $^{3}/_{12}$

13 The correct answer is: 2.00.

This is the ratio of current assets to current liabilities. The third option is wrong as the five-year bank loan would not normally be included with current liabilities. The first option is the quick ratio (excludes inventory).

14 The correct answer is: A loan note.

It is a loan note. It is not a preference share because it is secured. An overdraft does not have a fixed return or a fixed repayment date and is not secured.

15 The correct answer is: $320,000.

	$	$
Fair value of consideration		1,200,000
Net assets at acquisition as represented by		
Share capital	100,000	
Retained earnings	550,000	
Revaluation surplus	150,000	
Fair value adjustment	80,000	
		(880,000)
Goodwill		320,000

16 The correct answer is: $250,000.

RECEIVABLES LEDGER CONTROL ACCOUNT

	$		$
Bal b/f	100,000	Bank	230,000
Sales (balancing figure)	250,000	Returns	12,750
		Bal c/f	107,250
	350,000		350,000

Discounts received refer to purchases and go in the payables ledger control account.

17 The correct answer is: Ratios can predict a company's future performance.

Ratios can be used to analyse financial performance, and to make comparisons of performance over time and between different businesses in the same industry, but they cannot usually provide a reliable indicator of insolvency, especially if they are prepared only once a year.

18 The correct answer is: $1,148,200.

	$'000
Unrealised profit (15,000 × 25/125 × 60%)	1.8
Inventory (750 + 400 – 1.8)	1,148.2

19 The correct answer is: A reduction in payables.

Quick ratio = current assets excluding inventories/current liabilities.

The quick ratio does not include inventories or long term loans, so the first and second options will have no effect. An increase in payables would reduce the quick ratio.

20 The correct answer is: The purchase of goods for resale using cash was debited to the purchases account and credited to the cash book using the incorrect amount in both cases.

The second and third options are errors of principle, the fourth option is an error of omission.

21 The correct answer is: $63,000.

Carrying value at the end of year 3:	100,000 – (100,000 × 3/10)	= $70,000
Carrying value at the end of year 5:	70,000 – (70,000 × 2/20)	= $63,000

22 The correct answer is: $90.

	$
Ledger balance	260
Add back: disallowed discount	80
returns goods	270
cash in transit	830
Total balance	1,440
As stated by the supplier	1,350
Unreconciled difference	90

23 The correct answer is: $120,000.

	$
Sale proceeds (balancing figure)	120,000
Carrying amount (see below)	80,000
Profit on sale	40,000
Carrying amount at 31 December 20X1 (250,000 – 50,000)	200,000
Additions	35,000
	235,000
Carrying amount of disposals (balancing figure)	(80,000)
Depreciation	(15,000)
Carrying amount at 31 December 20X2 (185,000 – 45,000)	140,000

24 The correct answer is: International Accounting Standards Board.

The International Accounting Standards Board is responsible for issuing IFRSs.

25 The correct answer is:

	$
Fair value of NCI at acquisition	45,000
Plus NCI's share of post-acquisition retained earnings (and other reserves)	
((800 – 100) × 5% + 100 × 5%)	10,000
NCI at reporting date (31 December 20X1)	55,000

26 The correct answer is: An investor must have significant influence over the investee in order for the investee to be classified as an associate, therefore (3) is correct.

If the investor owns between 20% and <50% of the ordinary shares (voting) of the investee, significant influence can be assumed, (1) is not true as the shares held do not have voting rights. For an investee to be classified as a subsidiary, the investor must have control over the investee. Control can be demonstrated if the investor can appoint the majority of board members of the investee, so (2) is correct. (4) is also correct as despite its 55% shareholding, GR does not have control or significant influence over HU and as such is not classified as a subsidiary or as an associate, but as a simple trade investment.

27 The correct answer is: None of them.

All three are incorrect. In 1 and 3 the debit and credit entries should be reversed and 2 should show a credit of $60,000 to the share premium account.

28 The correct answer is: $2,700.

Date		*No. of items*	*Unit price* $	*Value* $
1.10.X9	Balance	120	8	960
3.10.X9	Purchases	180	9	1,620
	Balance	300		2,580
4.10.X9	Sales	(120)	8	(960)
	Sales	(30)	9	(270)
	Balance	150		1,350
8.10.X9	Sales	(80)	9	(720)
	Balance	70		630
18.10.X9	Purchases	300	10	3,000
	Balance	370		3,630
22.10.X9	Sales	(70)	9	(630)
	Sales	(30)	10	(300)
	Balance	270		2,700

29 The correct answer is: $264 CREDIT.

SUSPENSE ACCOUNT

	$		$
Bal b/f	346	Purchases (2)	520
Bal c/f	264	Sundry income (3)	90
	610		610

30 The correct answer is: $10.80.

Discounts received account for cash/settlement discounts received from suppliers on purchases. Transaction 1 relates to discounts on sales so does not impact the discounts received account. Therefore in transaction 2, purchase net of trade discount = $600 × 90% = $540 (trade discounts are not accounted for separately). Early settlement discount = 2% × $540 = $10.80.

31 The correct answer is: Statement of cash flows only.

Proceeds of a sale of non-current assets will only be shown in the statement of cash flows.

32 The correct answer is: The company does not carry any inventory.

The company does not carry any inventory. The calculation for the quick ratio excludes inventory. So if the current ratio (including inventory) and the quick ratio (excluding inventory) are the same, this must mean that 'inventory' is zero.

33 The correct answer is: $283,650.

	$	
	284,000	
Item 1	–	No change as NRV exceeds cost
Item 2	(350)	Reduce to NRV (1,000 – 650)
	283,650	

34 The correct answers are: One of the conditions to be satisfied if development expenditure is to be capitalised is that the technical feasibility of the project is reasonably assured.

Development expenditure may only be capitalised if it can be shown that adequate resources will be available to finance the completion of the project.

Statements (1) and (3) are incorrect.

35 The correct answer is: There was an unusually large sale on credit close to the end of the financial year.

If there has been a large credit sale near the end of the financial year, the amount owed will be included within receivables at the year end and trade receivables may be unusually high. If so, the average time for receivables to pay may be distorted, because year-end receivables are used to calculate the turnover ratio.

A large volume of sales in the final quarter of every year may explain why the measurement of the average collection period is long every year, but not why the collection period should be unusually long compared with the previous year.

Comparatively low sales in the final quarter would be more likely to result in a shorter-than-normal measurement of the average collection period.

SECTION B

36 The correct answer is:

Task 1

NOBRIE
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 MAY 20X4

	$'000	$'000
Cash flow from operating activities		
Net profit before tax	41,738	
Adjustments for		
Depreciation	5,862	
Profit on equipment disposal	(1,540)	
Investment income	(146)	
Interest paid	1,177	
Operating profit before working capital changes	47,091	
Increase in inventory	(866)	
Increase in receivables	(5,684)	
Decrease in payables	(3,625)	
Cash generated from operations	36,916	
Interest paid*	(1,177)	
Tax paid (W1)	(9,191)	
Net cash flows from operating activities		26,548

Working for tax paid

TAXATION

	$'000		$'000
Tax paid (bal fig)	9,191	Balance b/fwd	7,323
Balance c/fwd	7,989	Statement of profit or loss	9,857
	17,180		17,180

Task 2

The carrying value of property, plant and equipment disposals is $1,513,000.

The purchases of property, plant and equipment is $28,048,000.

Workings for property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT

	$'000		$'000
Balance b/fwd (carrying value)	88,466	Disposals (carrying value) (see working below)	1,513
Revaluation (15,395 – 7,123)	8,272	Depreciation	5,862
Purchases (bal fig)	28,048	Balance c/fwd (carrying value)	117,411
	124,786		124,786

Disposals

	$'000
Proceeds	3,053
Profit	1,540
(Carrying value of disposals	1,513

Task 3

The correct answers are: Increase in share capital, Increase in share premium.

Only the increase in share capital and share premium from the cash issue of shares is shown as a cash inflow on the statement of cash flows.

The increase in the revaluation surplus is a non-cash transaction and therefore is not included in the statement of cash flows.

The increase in retained earnings is shown as profit before tax in cash flows from operating activities in the statement of cash flows.

37 The correct answer is:

Task 1

Calculation of goodwill

	$'000	$'000
Fair value of consideration transferred		660,000
Plus fair value of NCI at acquisition		165,000
Less net acquisition-date fair value of identifiable assets acquired and liabilities assumed:		
Share capital	600,000	
Retained earnings at acquisition	95,000	
Fair value adjustment at acquisition	70,000	
		(765,000)
Goodwill		60,000

Task 2

SPYDER GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 OCTOBER 20X5

	$'000
Assets	
Non-current assets	
Goodwill	60,000
Land and buildings (315 + 278 + 70)	663,000
Plant (285 + 220)	505,000
	1,228,000
Current assets	
Inventory (357 + 252 – 12)	597,000
Receivables (525 + 126 – 25)	626,000
Bank (158 + 30)	188,000
	1,411,000
	2,639,000
Equity and liabilities	
Equity attributable to owners of the parent	
$1 ordinary shares	1,500,000
Retained earnings (W2)	661,600
Non-controlling interest (W3)	188,400
	2,350,000
Current liabilities	
Payables (220 + 94 – 25)	289,000
Total equity and liabilities	2,639,000

Workings

1 *Group structure*

$$\frac{480\text{m}}{600\text{m}} = 80\%$$

2 *Retained earnings*

	Spyder $m	*Phly* $m
Per question	580.0	212
Adjustment (unrealised profit)	(12.0)	
Pre-acquisition retained earnings		(95)
		117
Group share of post-acq'n ret'd earnings:		
Phly (80% × 117)	93.6	
Group retained earnings	661.6	

3 *Non-controlling interest*

	$m
Fair value of NCI at acquisition	165.0
Plus NCI's share of post-acquisition retained earnings (20% × 117)	23.4
NCI at reporting date	188.4

Mock exam 3

Foundations in Accountancy
Financial Accounting (FA)

Mock Exam 3

Questions	
Time allowed	2 hours
This exam is divided into two sections: Section A – ALL 35 questions are compulsory and MUST be attempted Section B – BOTH questions are compulsory and MUST be attempted	

DO NOT OPEN THIS EXAM UNTIL YOU ARE READY TO START UNDER EXAMINATION CONDITIONS

SECTION A

1 What is the role of the IFRS Interpretations Committee?

- ○ To oversee the standard setting process.
- ○ To monitor company's compliance with current accounting standards.
- ○ To issue new financial reporting standards to keep up to date with current environmental conditions.
- ○ To provide guidance on specific practical issues in the application of IFRS Standards.

(2 marks)

---

2 A company receives a cash discount of $35 from a supplier. The amount is debited to the discount received account.

What is the effect on the net profit?

- ○ Understated by $35
- ○ Understated by $70
- ○ Overstated by $70
- ○ Overstated by $35

(2 marks)

---

3 The allowance for receivables brought forward from 20X6 was $1,200. During 20X7 a debt of $75 required writing off. At the end of the year closing receivables were $100,000 and an allowance of 1.5% is required for receivables.

What is the charge to the statement of profit and loss for receivables expense for the year? (Do not enter numbers as minus and do not enter commas.)

$	

(2 marks)

---

4 Which groups of people are most likely to be interested in the financial statements of a large supermarket with shares listed on the stock exchange?

1 The general public

2 The company's suppliers

3 The company's bank

4 Stockbrokers

- ○ 1 and 2 only
- ○ 2 and 3 only
- ○ 2, 3 and 4 only
- ○ 1, 2, 3 and 4

(2 marks)

---

5 Which TWO of the following sets of items all appear on the same side of the trial balance?

- ☐ Sales; interest received; and accruals
- ☐ Receivables; drawings; and discount received
- ☐ Capital; trade payables; and other operating expenses
- ☐ Sundry expenses; prepayments; and purchases

(2 marks)

6 Which TWO of the following formulae are correct?

- ☐ Credit sales = closing receivables + receipts from trade receivables – opening receivables
- ☐ Payments to trade payables + opening payables – closing payables = credit purchases
- ☐ Cost of goods sold = closing inventories + purchases – opening inventories
- ☐ Cost of goods sold + closing inventories – opening inventories = purchases

(2 marks)

7 Clanger's trial balance did not balance and a suspense account was opened to restore equality. The following errors were discovered:

1 Telephone expenses of $673 had been entered in the telephone account as $763.

2 A purchase invoice of $2,340 had been entered in the purchases day book as $3,240.

3 Discounts received of $264 had been debited to the purchases account.

What is the balance required in the suspense account to balance the trial balance? (Do not enter sums as minus and do not enter commas.)

$	

(2 marks)

8 Identify, by selecting the correct box in the table below, which, if any, of the following items could form part of the calculation of cash flow from financing activities in accordance with IAS 7 *Statement of Cash Flows*.

Item	Part of cash flow from financing activities	Not part of cash flow from financing activities
Proceeds of sale of premises		
Dividends received		
Bonus issue of shares		

(2 marks)

9 Identify, by selecting the correct box in the table below, whether the following statements about bank reconciliations are correct or incorrect.

Statement	Correct	Incorrect
A difference between the cash book and the bank statement must be corrected by means of a journal entry.		
In preparing a bank reconciliation, lodgements recorded before date in the cash book but credited by the bank after date should reduce an overdrawn balance in the bank statement.		
Bank charges not yet entered in the cash book should be dealt with by an adjustment in the bank reconciliation statement.		
If a cheque received from a customer is dishonoured, a credit entry in the cash book is required.		

(2 marks)

---

10 The acid test ratio and the current ratio are frequently calculated ratios.

Which of the following do these ratios give information about?

- ○ Long-term solvency
- ○ Profitability
- ○ Liquidity
- ○ Gearing

(2 marks)

---

11 Tollan Co has the following intangible assets in its statement of financial position at 31.10.X4.

	$
Patent relating to new chair design (useful life 5 years)	510,000
Development project A (complete, useful life 10 years)	250,000
Development project B	160,000
(Incomplete, expected to complete in 20X5, expected useful life 10 years)	
Total intangible assets	670,000

Tollan calculates amortisation on a straight line basis.

In accordance with IAS 38 *Intangible Assets*, what amount for amortisation of intangible assets should be included in Tollan's statement of profit or loss for the year ended 31.10.X4?

- ○ $102,000
- ○ $127,000
- ○ $25,000
- ○ $143,000

(2 marks)

---

12 Which of the following statements concerning the receivables ledger control account is not correct?

- ○ It makes the detection of errors easier.
- ○ It helps to ensure that all transactions with credit customers have been correctly recorded.
- ○ It ensures that errors cannot occur in relation to transactions between the business and its credit customers.
- ○ It shows the total amount due to a business from its receivables.

(2 marks)

---

13 A bank statement shows a balance of funds in the account. An examination of the bank statement shows a $500 cheque paid in per the cash book but not yet on the bank statement and a $1,250 cheque paid out but not yet on the statement. In addition, the bank statement shows deposit interest received of $50 but this has not yet been recorded in the cash book.

What is the balance per the cash book?

- ○ $400 in hand
- ○ $500 overdrawn
- ○ $1,900 in hand
- ○ $1,900 overdrawn

(2 marks)

---

14 An ordinary dividend is declared prior to the year end.

Identify, by selecting the correct box in the table below, what the accounting treatment relating to the ordinary dividend in the financial statements is.

	Debit	Credit	No effect
Share capital (SOFP)			
Retained earnings (SOFP)			
Finance cost (SPL)			
Dividend payable (SOFP)			

(2 marks)

---

15 Rent expense in the statement of profit and loss for the year was $4,000. $200 was prepaid at the start of the year and $400 was owing at the end of year.

What was the cash book figure for rent paid?

- ○ $4,000
- ○ $4,200
- ○ $3,400
- ○ $3,800

(2 marks)

---

16 Which of the following errors could explain a suspense account balance of $50 (debit) on a preliminary trial balance?

- ○ The total column of the cash payments book was overcast by $50
- ○ Discounts received of $50 had been omitted from the trial balance
- ○ An invoice for $550 was recorded as $500 in the receivables ledger
- ○ The credit side of the cash account was undercast when the nominal ledger was balanced off

(2 marks)

17 A company incurs the following expenditure: $86,000 in attempting to convert seaweed into a cure for muscular injuries; $192,000 developing a painkiller whose commercial production commenced on 1 April 20X1; the painkiller is expected to be a market leader for ten years.

Amortisation is charged proportionality in the year of acquisition and the year of disposal.

What is the carrying amount of development expenditure in the statement of financial position as at year end 31 July 20X1?

- ○ $185,600
- ○ $278,000
- ○ $271,600
- ○ $192,000

(2 marks)

18 Identify, by selecting the correct box in the table below, whether the following statements are true or false in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

	True	False
Remote contingent liabilities should be disclosed.		
Possible contingent liabilities should be disclosed.		
Possible contingent assets should be disclosed.		
Probable contingent liabilities should be disclosed.		

(2 marks)

19 McIntosh has opening inventory of 100 units valued at $2.50 each. During February, the following movements of inventory occurred.

Date	Movement	Quantity	$
4th	Receipts	400	2.60
7th	Issues	150	
14th	Issues	50	
17th	Receipts	100	2.70
23rd	Issues	250	

McIntosh uses the FIFO method to value inventory.

According to IAS 2 *Inventories*, what is the value of inventory at the end of February?

- ○ $380
- ○ $400
- ○ $360
- ○ $350

(2 marks)

---

20 Hartley Co wishes to increase its return on capital employed (ROCE).

Identify, by selecting the correct boxes in the table below, whether the following courses of action increase or decrease ROCE in the short term?

	Increase ROCE	Decrease ROCE
Revalue land and buildings upwards		
Reduce overhead expenses		
Issue ordinary shares		
Increase revenue		

(2 marks)

---

21 Which of the following will appear on the debit side of a payables ledger control account?

- ○ Invoices to customers
- ○ Invoices from suppliers
- ○ Discounts received
- ○ Irrecoverable debts written off

(2 marks)

---

22 An inexperienced bookkeeper has drawn up the following receivables ledger control account:

RECEIVABLES LEDGER CONTROL ACCOUNT

	$		$
Opening balance	180,000	Credit sales	190,000
Cash from credit customers	228,000	Irrecoverable debts written off	1,500
Sales returns	12,200	Contras against payables	2,400
Cash refunds to credit customers	3,300	Closing balance (balancing figure)	229,600
	423,500		423,500

What should the closing balance be after correcting the errors made in preparing the account?

- ○ $130,600
- ○ $129,200
- ○ $142,400
- ○ $412,600

(2 marks)

---

23 Ranjit Singh started a business on 1 November. On that date, he opened a bank account for the business by paying in $4,000. During November, the following transactions took place.

Purchased goods on credit	$1,500
Bankings re: cash sales	$650
Drawings	$800
Payments to suppliers	$750

What balance should Ranjit's trial balance show for the bank account at 30 November?

- ○ $3,100 debit
- ○ $3,100 credit
- ○ $1,600 debit
- ○ $1,600 credit

(2 marks)

---

24 The net assets of Kate's business were $16,100 at 1 January 20X3 and $27,600 at 31 December 20X3. During the year Kate paid lottery winnings of $2,950 into the business bank account and withdrew $1,450.

What was the net profit for the year ended 31 December 20X3? (Do not enter numbers as minus and do not enter commas.)

$	

(2 marks)

---

25 A Co has the following year end balances as at 31.12.X5.

	$'000
Ordinary share capital	1,000
Redeemable preference share capital (redeemable in 31.12.Y9)	500
Bank overdraft	680
Bank loan (repayable 31.12.X8)	500
Tax payable	250

What is the total of the non-current liabilities on the statement of financial position as at 31.12.X5?

○ $500

○ $1,000

○ $1,680

○ $1,930 **(2 marks)**

---

26 Which groups of people are most likely to be interested in the financial statements of a sole trader?

1 Shareholders of the company

2 The business's bank manager

3 The tax authorities

4 Financial analysts

○ 1 and 2 only

○ 2 and 3 only

○ 2, 3 and 4 only

○ 1, 2 and 3 only **(2 marks)**

---

27 The following transactions took place during May:

	$
Discount received	750
Irrecoverable debt expense	150
Returns inwards day book total	310
Cash and cheques paid to suppliers	59,650
Purchases day book total	40,750
Returns outwards day book total	270

If the trade payables opening balance was $55,750, what was the closing balance? (Do not enter numbers as minus and do not enter commas.)

$ ______ **(2 marks)**

---

28 Which TWO of the items below would not appear in the statement of cash flows?

- ☐ A bonus issue of shares
- ☐ Dividend paid to preference shareholders in the year
- ☐ Repayment of a bank loan
- ☐ The statement of profit and loss charge for taxation for the current

(2 marks)

29 Lydd Co purchases production machinery costing $100,000 and having an estimated useful life of 20 years and a residual value of $2,000. After being in use for six years the remaining useful life of the machinery is revised and estimated to be 25 years, with an unchanged residual value.

The company's depreciation policy for production machinery is to depreciate on a straight line basis.

What is the annual depreciation charge on the machinery in year 7? (Do not enter numbers as minus and do not enter commas.)

$	

(2 marks)

30 Identify, by selecting the relevant boxes in the table below, whether the following items could form part of the calculation of cash flow from operating activities in accordance with IAS 7 *Statement of Cash Flows*.

	Part of cash flow from operating activities	Not part of cash flow from operating activities
Proceeds from a rights issue of shares		
Dividends paid		
Interest paid		
Interest received		

(2 marks)

31 During its financial period, a business has the following transactions.

	$
Sales	50,000
Purchases	33,000
Sales returns	3,500
Purchase returns	2,000
Closing inventory	3,500

Gross profit was $14,000, what was the figure for opening inventory? (Do not enter numbers as minus and do not enter commas.)

$	

(2 marks)

32 At 01.04.X8, PRH Co has 1 million shares in issue (par value $1).

During the year ended 31.03.X9, the following share transactions took place:

On 01.08.X8, PRH Co makes a 1 for 4 bonus issue.

On 01.12.X8, PRH Co makes a 1 for 5 rights issue at $1.20 which was fully subscribed.

What is PRH Co's ordinary share capital balance at 31.03.X9?

○ $1,500,000

○ $1,550,000

○ $1,440,000

○ $1,450,000

(2 marks)

---

33 Extracts from the preliminary trial balance of Jessie and Co as at 30 September 20X2 are included in the table. Further adjustments are to be made as follows:

(a) No entries have been made in respect of cash of $920 received from Kieran whose balance had been written off last year; and

(b) At 30 September 20X2 an allowance is for 1.5% of the receivables balance.

	Debit	*Credit*
Sales ledger control account	$90,350	
Allowance for receivables (brought forward as at 1 October 20X1)		$2,490
Irrecoverable debts and allowance for receivables expense	$1,860	

What is the total charge or credit in the statement of profit or loss for receivables? (Do not enter numbers as minus and do not enter commas.)

$ ______

(2 marks)

---

34 Which TWO of the following describe consistency?

☐ The effects of transactions should be reflected in the financial statements for the accounting period in which they occur and not necessarily in the period where any cash involved is received or paid.

☐ Using the same treatment for the same items from one period to the next.

☐ In situations where there is uncertainty, appropriate caution must be exercised in recognising transactions in financial records.

☐ Similar items within a single set of financial should be given similar accounting treatment.

(2 marks)

---

35 A Co has issued share capital of 300,000 ordinary shares of $0.10 each. It declares and pays a dividend of 1c per share.

What is the journal entry to account for the dividend?

○ Dr Dividends $30,000, Cr Cash $30,000

○ Dr Finance Cost $30,000, Cr Cash $30,000

○ Dr Dividends $3,000, Cr Cash $3,000

○ Dr Finance Cost $3,000, Cr Cash $3,000

(2 marks)

SECTION B

36 The following information has been extracted from the books of Monsoon, a limited liability company, as at 31 October 20X6.

	DR	CR
	$'000	$'000
Cash in hand	10	
Inventory at 1 November 20X5	300	
General expenses	330	
Marketing expenses	50	
Wages and salaries	675	
Share premium account		250
Retained earnings at 1 November 20X5		524
Allowance for receivables at 1 November 20X5		40
Sales revenue		5,685
Bank		94
Trade payables		290
Loan note interest	28	
Trade receivables	900	
Purchases	3,520	
7% loan notes		400
Irrecoverable debts	150	
$1 ordinary shares		1,500
Accumulated depreciation at 1 November 20X5		
Buildings		360
Motor Vehicles		80
Furniture and equipment		420
Land at cost	740	
Buildings at cost	1,500	
Motor vehicles at cost	240	
Furniture and equipment at cost	1,200	
	9,643	9,643

You have also been provided with the following information:

(a) Inventory at 31 October 20X6 was valued at $275,000 based on its original cost. However, $45,000 of this inventory has been in the warehouse for over two years and the directors have agreed to sell it in November 20X6 for a cash price of $15,000.

(b) The marketing expenses include $5,000 which relates to November 20X6.

(c) The allowance for receivables is to be increased to 8% of trade receivables.

(d) There are wages and salaries outstanding of $40,000 for the year ended 31 October 20X6.

(e) Depreciation is to be charged as follows:

(i) Building at 5% of cost.

(ii) Motor vehicles at 20% of carrying amount.

(iii) Furniture and equipment at 20% of cost.

(f) No dividends have been paid or declared.

(g) Tax of $150,000 is to be provided for the year.

Required

Task 1

Complete the following statement of profit or loss for the year ended 31 October 20X6, prepared for internal purposes.

(12 marks)

MONSOON
STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 OCTOBER 20X6

	$'000	$'000
Sales revenue		5,685
Cost of sales		
Picklist 1		Picklist 2
Expenses		
Marketing expenses		
Wages and salaries		
General expenses		
Loan note interest		
Irrecoverable debt expense		
Depreciation		
Net profit before taxation		
Taxation		
Profit for the year		

Picklist 1

Select your answer from the following list:

Gross profit
Gross profit margin
Operating profit
Mark up

Picklist 2

Select your answer from the following list:

Revenue less cost of sales
Revenue add cost of sales
Cost of sales divided by revenue

Task 2

Identify, by selecting the relevant boxes in the table below, where the following balances are presented in the statement of financial position.

(3 marks)

	Assets	Liabilities	Equity
Share premium account			
Trade receivables			
7% loan notes			

37 On 1 July 20X6, Matlock Co acquired 150,000 $1 ordinary shares in Rugby Co at a cost of $300,000. The fair value of the non-controlling interest at acquisition was $100,000. Rugby Co's financial statements at the date of acquisition showed equity of:

	$
Ordinary share capital	200,000
Retained earnings	36,200
	236,000

At 30 June 20X8, Rugby Co had retained earnings of $16,000.

Task 1

What is the goodwill arising on consolidation?

$	

(4 marks)

In the year to 30 June 20X8, Matlock Co had revenue of $350,000 and Rugby Co had revenue of $125,000. Included in Matlock's revenue are goods sold to Rugby for $25,000 that cost Matlock $20,000 to buy. Half of these goods are still in Rugby's inventory at the year end.

On 30 June 20X8, the inventory figures shown the statements of financial position of each company were: Matlock $200,000 and Rugby $100,000.

Task 2

What is the consolidated revenue figure for the year ended 30 June 20X8?

- ○ $475,000
- ○ $450,000
- ○ $465,000
- ○ $455,000

(2 marks)

Task 3

What amount of inventory will be shown in the consolidated statement of financial position at 30 June 20X8?

$	

(2 marks)

Sapphire's profit for the year was $45,500. During the year, Matlock sold goods to Sapphire. As a result, inventories in the consolidated statement of financial position have been reduced to reflect unrealised profit of $5,000.

Task 4

How much of the non-controlling interests (NCI) figure that appears in the consolidated statement of profit or loss for the year relates to NCI in Sapphire Co, for the year ended 30 June 20X9?

$	

(3 marks)

Task 5

Identify, by selecting the relevant boxes in the table below, what type of investment P has in S in the following situations.

Situation	Subsidiary	Associate	Investment
P owns 49% of the voting rights of S and can appoint 2 out of 5 directors to its board.			
P has a 25% interest in S and exercises significant influence over S's operating and financial policy.			
P owns 49% of the voting rights of S and controls its board.			
P has power to govern the financial and operating policies of S under an agreement.			

Answers to Mock Exam 3

SECTION A

1 The correct answer is: To provide guidance on specific practical issues in the application of IFRS Standards.

2 The correct answer is: Understated by $70.

Discounts received should have been credited. To correct the error we need to credit discounts received twice, once to reverse the error and once to post the correct entry. Therefore profit is understated by $70.

3 The correct answer is: $375.

The T-account for receivables expense looks like this:

RECEIVABLES EXPENSE

	$		$
Debt written off	75	Opening balance b/f	1,200
Closing balance c/f	1,500	Statement of profit or loss	375
	1,575		1,575

4 The correct answer is: 1, 2, 3 and 4.

The general public may be interested to see how the supermarket can contribute to the local economy and create jobs, as well as the affect it has on the environment.

The supermarket's suppliers will want to know about the supermarkets ability to pay them in a reasonable time.

The company's bank will want to know about the supermarkets ability to repay any debts, or the likelihood of being in breach of any debt agreement.

Stockbrokers will want to examine if the supermarket is sound investment for investors to buy shares in.

5 The correct answers are:

Sales; interest received; and accruals are all credit balances.

Sundry expenses; prepayments; and purchases are all debit balances.

6 The correct answers are:

Credit sales = closing receivables + receipts from trade receivables – opening receivables

Cost of goods sold + closing inventories – opening inventories = purchases

The remaining two formulae should read:

Payments to trade payables + closing payables – opening payables = credit purchases

Cost of goods sold = opening inventories + purchases – closing inventories

7 The correct answer is: $618 credit.

Item 1 means that total debits were overstated by $90. Item 2 leads to compensating errors in the purchases and payables accounts. 3 means that total debits were overstated by 2 × $264 = $528.

ANSWERS

8 The correct answer is:

Item	Part of cash flow from financing activities	Not part of cash flow from financing activities
Proceeds of sale of premises		✓(presented under investing activities)
Dividends received		✓ (presented under operating or investing activities)
Bonus issue of shares		✓ (a bonus issue is not a cash flow)

9 The correct answer is:

Statement	Correct	Incorrect
A difference between the cash book and the bank statement must be corrected by means of a journal entry.		✓ (a journal entry is only required if the cash book is incomplete or incorrect)
In preparing a bank reconciliation, lodgements recorded before date in the cash book but credited by the bank after date should reduce an overdrawn balance in the bank statement.	✓	
Bank charges not yet entered in the cash book should be dealt with by an adjustment in the bank reconciliation statement.		✓ (they should be entered into the cashbook and the cashbook balance adjusted)
If a cheque received from a customer is dishonoured, a credit entry in the cash book is required.	✓	

10 The correct answer is: Liquidity.

Information about long-term solvency is obtained through calculating gearing and debt ratios. Information about profitability is obtained through the use of ROCE, ROE and gross and net profit margins.

11 The correct answer is: $127,000.

	$
Patent (510/5)	102,000
Development project A (250/10)	25,000
Total amortisation	127,000

The balance relating to development project B should not be amortised until the project is finished and the asset is available for use.

12 The correct answer is: It ensures that errors cannot occur in relation to transactions between the business and its credit customers.

Errors will occur but the control account helps to detect them.

13 The correct answer is: $400 in hand.

Workings

	$
Balance per bank statement	1,200
Add: outstanding deposits	500
Less	
Unpresented cheques	(1,250)
Deposit interest not yet recorded in cb	(50)
Balance per cash book	400

14 The correct answer is:

	Debit	Credit	No effect
Share capital (SOFP)			✓
Retained earnings (SOFP)	✓		
Finance cost (SPL)			✓
Dividend payable (SOFP		✓	

15 The correct answer is: $3,400.

Rent paid will be: $4,000 – $200 (prepaid) – $400 (owing) = $3,400

16 The correct answer is: The total column of the cash payments book was overcast by $50.

Discounts received of $50 had been omitted from the trial balance and the credit side of the cash account was undercast when the nominal ledger was balanced off, would produce credit balances on suspense.

An invoice for $550 was recorded as $500 in the receivables ledger, would only affect the memorandum records, not the trial balance.

17 The correct answer is: $185,600.

The $192,000 relates to a specific project and is technically and economically viable. Assuming that the costs will be amortised on a straight line basis 4 months amortisation should be provided ($192,000/10 × 4/12 = $6,400).

18 The correct answer is:

	True	False
Remote contingent liabilities should be disclosed.		✓
Possible contingent liabilities should be disclosed.	✓	
Possible contingent assets should be disclosed.		✓
Probable contingent liabilities should be disclosed.	✓	

If the chance of occurrence is probable, contingent assets should be disclosed (IAS 37: para. 89).

It is only when probability is remote that contingent liabilities are ignored altogether (IAS 37: para. 86).

If a contingent liability becomes probable, then it is no longer a contingent liability and should be provided for (IAS 37: para. 30).

19 The correct answer is: Closing inventory $400.

The value of closing inventory after each transaction is as follows:

Date	Quantity	$
4th	500	250 + 1,040 = 1,290
7th	350	910
14th	300	780
17th	400	780 + 270 = 1,050
23rd	150	130 + 270 = 400

20 The correct answers are:

	Increase ROCE	Decrease ROCE
Revalue land and buildings upwards		✓
Reduce overhead expenses	✓	
Issue ordinary shares		✓
Increase revenue	✓	

ROCE is likely to increase if the company increases revenue or reduces overhead expenses as these will both increase operating profit.

Revaluing land and buildings upwards and issuing ordinary shares will increase capital employed and decrease ROCE in the short term. (The issue of shares may lead to an increase in profits and ROCE in the longer term because more cash will be available to invest in the business to generate more sales.)

21 The correct answer is: Discounts received.

Invoices from suppliers will be credited to the payables ledger control account. Invoices to customers and irrecoverable debts written off will both appear in the receivables ledger control account.

22 The correct answer is: $129,200.

RECEIVABLES LEDGER CONTROL ACCOUNT

	$		$
Opening balance	180,000	Cash from credit customers	228,000
Credit sales	190,000	Irrecoverable debts written off	1,500
Cash refund	3,300	Sales returns	12,200
		Contras	2,400
		Closing balance	129,200
	373,300		373,300

23 The correct answer is: $3,100 debit.

Opening balance	4,000 debit
Add: Bankings	650
	4,650
Less payments:	
Drawings	800
To suppliers	750
	1,550
Balance c/f	3,100 debit

Remember that the goods purchased on credit do not affect the bank account until payments are made to suppliers.

24 The correct answer is: $10,000.

(Capital c/f – capital b/f – capital introduced + drawings = net profit)

Closing net assets	27,600
Less: opening net assets	(16,100)
Less: capital introduced	(2,950)
Add: drawings	1,450
Net profit	10,000

Proof:

Opening capital + capital introduced + net profit – drawings = closing capital

16,100 + 2,950 + 10,000 – 1,450 = 27,600

25 The correct answer is: $1,000.

	$'000
Redeemable preference share capital (redeemable in 31.12.Y9)	500
Bank loan (repayable 31.12.X8)	500
	1,000

Because the preference share capital is redeemable, it is classified as a liability in accordance with IAS 32. The bank overdraft and tax payable are current liabilities. Ordinary share capital is equity.

26 The correct answer is: 2 and 3 only.

A sole trader does not have any shareholders. The accounts are unlikely to be of interest to a financial analyst, they are more usually interested in the accounts of public companies.

27 The correct answer is: $35,830.

TRADE PAYABLES ACCOUNT

	$		$
Cash paid	59,650	Bal b/f	55,750
Returns outwards DB	270	Purchases DB	40,750
Discount received	750		
Bal c/f	35,830		
	96,500		96,500

28 The correct answers are: The statement of profit and loss charge for taxation for the current year; A bonus issue of shares.

The statement of profit and loss charge is not shown in the statement of cash flows.

The cash flow will show the actual tax paid.

There is no cash received or paid when a bonus issue of shares is made, so the bonus issue will not appear in the statement of cash flows.

29 The correct answer is: $2,744.

Dep'n to date = (100,000 – 2,000)/20 × 6 = 29,400

Carrying amount = 100,000 – 29,400 = 70,600

New dep'n = (70,600 – 2,000)/25 = 2,744

30 The correct answer is: 2 and 3 only.

	Part of cash flow from operating activities	Not part of cash flow from operating activities
Proceeds from a rights issue of shares		✓
Dividends paid	✓	
Interest paid	✓	
Interest received		✓

31 The correct answer is: $5,000.

	$	$
Net sales		46,500
Opening inventory	5,000	
Net purchases	31,000	
	36,000	
Closing inventory	3,500	
		32,500
Gross profit		14,000

32 The correct answer is: $1,500,000.

1 million shares at $1	$1,000,000
Plus bonus issue 1 for 4	$250,000
Plus rights issue 1 for 5	$250,000
(The 20c premium would be in the share premium account)	$1,500,000

33 The correct answer is: $195 credit.

Irrecoverable debts and allowance for receivables expense per TB	$1,860
Less: Irrecoverable debt recovered	$920
Less: Decrease in allowance	$1,135
	$195 credit

Allowance required = 1.5% × 90,350	$1,355
Allowance b/f	$2,490
Therefore decrease	$1,135

34 The correct answers are: Similar items within a single set of accounts should be given similar accounting treatment; Similar items should be treated in the same way from one period to the next

These statements describe consistency.

Prudence states that in situations where there is uncertainty, appropriate caution must be exercised in recognising transactions in financial records.

Under the accruals concept, the effects of transactions should be reflected in the financial statements for the accounting period in which they occur and not necessarily in the period where any cash involved is received or paid.

35 The correct answer is: Dr Dividends (SOCIE) $3,600, Cr Cash $3,600.

The dividend is shown in the statement of changes in equity and is calculated as $0.01 × $300,000 = $3,000.

SECTION B

36 **Task 1**

MONSOON
STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 OCTOBER 20X6

	$'000	$'000
Sales revenue		5,685
		5,685
Cost of sales (W1)		–3,575
		Revenue less cost of sales
Gross profit		
Expenses		
Marketing expenses (50 – 5)	45	
Wages and salaries (675 + 40)	715	
General expenses	330	
Loan note interest	28	
Irrecoverable debt expense (W2)	182	
Depreciation (W3)	347	
		–1,647
Net profit before taxation		463
Taxation		–150
Profit for the year		313

Workings

1 *Cost of sales*

	$'000	$'000
Opening inventory		300
Purchases		3,520
		382
Closing inventory		
Per question	275	
Less write-down to NRV (45 – 15)	–30	
		–245
		3,575

2 *Irrecoverable debt expense*

	$
Receivables per trial balance	900
Allowance required 900,000 × 8%	72
Allowance per trial balance	40
Increase	32
Irrecoverable debt written off	150
Total irrecoverable debt expense	182

3 *Depreciation*

	Land $'000	*Buildings* $'000	*Motor vehicles* $'000	*Furniture and equipment* $'000
Cost	740	1,500	240	1,200
Depreciation at 1.11.X5	0	360	80	420
Charge for the year 1,500 × 5%		75		
(240 – 80) × 20%			32	
1,200 × 20%				240
Total depreciation charge: 75 + 32 + 240 =		347		

Task 2

	Assets	Liabilities	Equity
Share premium account			✓
Trade receivables	✓		
7% loan notes		✓	

37 Task 1

Goodwill calculation	$
Consideration transferred	300,000
Fair value of NCI	100,000
Net assets acquired (200 + 36)	(236,000)
Goodwill	164,000

The reduction in net assets since acquisition is not relevant for the purposes of determining goodwill.

Task 2

$450,000

Matlock 350,000 + Rugby 125,000 – intragroup sales 25,000 = $450,000

Task 3

$297,500

Inventory = Matlock $200,000 + Rugby $100,000 – unrealised profit $2,500 ($5,000 × 50%) = $297,500

Task 4

$13,650

NCI = 45,500 × 9/12 × 40% = $13,650.

The intragroup sales were from the parent to the subsidiary and so the unrealised profit is in the parent, which does not affect the NCI.

Task 5

Situation	Subsidiary	Associate	Investment
P owns 49% of the voting rights of S and can appoint 2 out of 5 directors to its board.		✓	
P has a 25% interest in S and exercises significant influence over S's operating and financial policy.		✓	
P owns 49% of the voting rights of S and controls its board.	✓		
P has power to govern the financial and operating policies of S under an agreement.	✓		

Notes

Notes

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REVIEW FORM

Name: ______________________ Address: ______________________

____

Date: ______________________ ______________________

How have you used this Practice & Revision Kit?
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- ☐ On its own (book only)
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During the past six months do you recall seeing/receiving any of the following?
(Tick as many boxes as are relevant)

- ☐ Our advertisement in *ACCA Student Accountant*
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Which (if any) aspects of our advertising do you find useful?
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Have you used the companion Workbook for this subject? ☐ Yes ☐ No

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	Very useful	*Useful*	*Not useful*
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'Do You Know' checklists	☐	☐	☐
'Did You Know' checklists	☐	☐	☐
Possible pitfalls	☐	☐	☐
Questions	☐	☐	☐
Answers	☐	☐	☐
Mock exams	☐	☐	☐
Structure & presentation	☐	☐	☐
Icons	☐	☐	☐

	Excellent	*Good*	*Adequate*	*Poor*
Overall opinion of this Kit	☐	☐	☐	☐

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REVIEW FORM (continued)

Please note any further comments and suggestions/errors below